New
**Philanthropy**
Capital

# What place for mergers between charities?

**June 2009**

**John Copps**

# What place for mergers between charities?

Cover photograph supplied by istockphoto.

# Summary


## Mergers can create value

Mergers can make charities more effective, improving their ability to help vulnerable people. By bringing together organisations with similar missions, mergers can improve existing services, create new benefits and save money.

As well as benefits, mergers also have costs. Mergers are never a straightforward solution and in some cases are not appropriate. If not done well they can destroy value.

## There are too few mergers

Evidence suggests that mergers between charities are not very common, particularly among larger organisations. 'Merger' is a dirty word in the charitable sector as it seen as implying aggressive and predatory behaviour. A recent Charity Commission survey on how charities would respond to the recession showed that just 3% of charities said they had considered merging.

Mergers should be primarily driven by a desire to improve services for beneficiaries. Undertaking a merger should be a strategic decision based on furthering the charitable purposes. Too few mergers suggest that the charitable sector is not organised in a way to maximise value for vulnerable people.

Most mergers seem to occur in response to crisis—usually financial problems or the loss of key management—rather than an explicit desire to further charitable purposes. This is because the culture, structure of control, and personal passion invested in charities by their staff tend to favour the status quo.

## Using research

New Philanthropy Capital's (NPC) research into the different sub-sectors within the charitable world provides a basis for a critical assessment of their structures. Using it, we can highlight duplication, spot potential synergies and make suggestions for where mergers and alliances could be beneficial. Examples of areas where NPC believes that there may be a compelling case to *consider* merger include literacy help in schools, breast cancer research, debt advice helplines and grant-making trusts.

The lack of information available is an important obstacle when considering mergers. This makes it hard to spot opportunities for collaboration. Better information and analysis would help trustees and managers to make better decisions.

## A new duty for trustees

Given that a merger is a means of increasing the ability of charities to help people, then it should be part of a trustee's role to consider whether a merger is a way to fulfil its charitable purpose better, even if this means the eventual winding down of the charity. This requires trustees and managers to think beyond the limits of their organisation: the question is not what works best for the charity, it is what works best for the community in need.

In the context of great social and economic change, mergers are part of the innovation that the charitable sector must deliver over the next two or three years.

*To discuss the conclusions of this report, or to comment on any of its content, visit NPC's blog at http://newphilanthropycapital.blogspot.com.*

Photograph supplied by Kristian_Buus

# Contents

# Introduction

There is much talk in the charitable sector that 2009 will be the Year of the Merger. On April 1st, Age Concern England and Help the Aged joined forces in the most high-profile charity merger for nearly a decade.[1] Earlier in the year, Prince Charles was reported to have resigned as president of a charity in frustration that it had not taken up a suggestion to merge.[2]

As the recession strains charities' balance sheets and as incomes fall, many charities will have to seek new ways to secure their future. Some see mergers as an obvious answer.

This paper looks at what place mergers have in the charitable sector. It investigates the reasons for mergers and what benefits they can bring. It also looks at how common mergers are and what factors influence this. We argue that mergers can create value and should be an important part of making charities more effective. At present there are probably fewer mergers than would be expected if the charitable sector were organised in a way that maximised services for beneficiaries.

## Structure of this paper

This paper contains four sections.

The first chapter looks at what a merger is, what drives mergers and what their purpose is. It discusses some of the common objections to mergers, and looks briefly at other approaches to collaboration.

The second chapter looks at the question of whether mergers improve the work of charities, and if so how they would achieve this. It begins with four case studies of recent mergers. It then discusses the value offered by mergers and some of the difficulties in making a judgment on success.

The third chapter looks at why mergers between charities are not more common. To help understand this, we look at the structure of the charitable sector and what defines the trends and behaviour around mergers. We compare charities with for-profit companies, looking at how they differ and what charities might learn.

The fourth chapter explores how mergers between charities could be encouraged. It identifies how greater information and education could be part of a solution in creating incentives for trustees and managers of charities to look for opportunities to merge. It points to some parts of the charitable sector and some organisations where NPC believes there may be a compelling case to consider merger.

To inform our arguments, we spoke to a range of experts and explored the literature on mergers in a for-profit and not-for-profit context. A list of acknowledgements and references is included at the end of the report.

Photograph supplied by Mental Health Media

# Background to mergers



**This chapter looks at what a merger is and what mergers aim to achieve. It discusses some of the common objections to mergers, and looks briefly at other approaches to collaboration.**

## What is a merger?

A merger is the combination of two organisations into one larger organisation. Mergers between charities can only take place when the Charity Commission is satisfied that the charitable purposes of the two organisations are consistent, and that neither group of beneficiaries will miss out. The Charities Act 2006 defines a merger in two ways:

(a) where two organisations agree to merge and *one* of the organisations transfers all of its property to the other and then ceases to exist

(b) where two organisations agree to merge and *both* transfer all of their properties to a *new organisation*, whereupon the original charities cease to exist.

Although the term merger is preferred in the charitable sector, the first definition might more accurately be described as an acquisition or take-over of one organisation by another. However, in practice, the circumstances and legal fees involved mean that most mergers are performed as acquisitions, even if the partners agree it is a 'merger of equals'. The form of merger described in the second definition is rare because it is more complicated and costly.

The literature on mergers in the charitable sector tends to view them in a broad context of partnership and collaboration.[3] Mergers sit alongside other forms of joint working such as informal agreements to share office space and legally-binding joint ventures. In this report we focus on formal mergers, although we discuss other approaches to collaboration later in this chapter.

## How common are mergers?

There is a history of mergers between charities, but it is poorly understood. There is no aggregate data on prevalence, so we have to rely on anecdote to build up a picture of past trends.

Evidence suggests that mergers between charities are less common than one might expect. A recent survey for the Charity Commission showed that 64% of charities with an annual income of over £1m are concerned that the downturn is going to affect future work, but just 3% said they had considered merging.[4] Moreover, in 2006, the Charity Commission set up a register of mergers.[5] Since it was established, only 260 separate charity mergers have been recorded, from a total population of around 171,000 charities.

There is evidence from elsewhere that suggests a more complicated picture. Research by the Bridgespan Group across four US states showed that rates of mergers and acquisitions are broadly similar among small non-profits to those among small companies.[6] However, the study found a significant difference between the rates of mergers of large non-profits and large companies (with an annual budget of more than $50m). Among large non-profits the rate of merger was just one tenth of that among large for-profit companies.[7]

Mergers among for-profit companies are a keenly studied area, and the data shows that that they occur in 'waves'. Since the start of the twentieth century there have been six distinct waves of activity, each with different characteristics.[8] For example, in the 1930s mergers were characterised by the coming together of firms at different points in the manufacturing process, whereas the mergers at the turn of the twenty-first century were driven by new internet technology and the dot-com bubble.

Economic history also shows that mergers tend to be grouped by industry.[9] For example, shocks such as the recent banking crisis have caused a number of mergers and acquisitions as strong companies acquire weaker competitors.

Although there is no comparable data on the charitable sector, we can still observe some broad trends. Mergers among charities seem to group by industry. For example, in the 1990s there were waves of activity in the HIV/AIDS sector in response to new treatments.[10]

In the last few months, the industry press and conference schedules in the charitable sector are full of discussion about mergers. NPC's contact with charities reveals how much the issue is being discussed in board meetings and in the offices of chief executives across the UK. It is likely that in 2009 and 2010 we will see a spike in the number of mergers between charities.

## What drives mergers?

Mergers happen when two organisations think that they will be better working together. This judgment is usually reached by a combination of the management and trustees of charities, after a period of discussion.

Although there is very little hard data on the reasons for mergers among charities, our research revealed similar causes to those of for-profit companies. The most common reason to consider a merger seems to be in response to financial crisis. There are many examples of organisations with financial concerns—such as ChildLine or Mental Health Media (see Chapter 2)—for which the management and trustees seek to preserve their work under the wing of a more financially robust partner.

Mergers also seem to occur at other times of crisis—for example, when an organisation experiences a change in leadership or when there is a major shift within an industry. School-Home Liaison and Bondway are two examples of mergers triggered by a change in leadership (see Chapter 2). Over the last ten years, changes in attitudes towards homeless people and the decline in rough sleeping have spurred consolidation among homelessness charities in London.

Charities report a recent trend towards working closer together in response to changes in the way the government commissions services and a movement away from the old regime of grant funding. When seeking suppliers, local authorities and primary care trusts often prefer to work with larger organisations, which may lead to a rise in merger activity. For example, in 2007 five district councils for voluntary service in Cumbria, organisations which support the local charitable sector, merged in response to the district councils' consolidation into one unitary authority.[11] The newly-formed Cumbria Council for Voluntary Service was necessary to reflect the changing needs of the charitable sector and new structure of local government.[12]

Most charity mergers seem to be triggered by one of the causes identified here. However, mergers can also occur to make organisations more effective without such triggers. For example, the merger between the two major cancer research charities in 2001 to create Cancer Research UK was driven principally by a desire to see progress in the fight against cancer, and to achieve the benefits in knowledge-sharing and cost savings that a merger would bring.[13] Often these strategic benefits are not what inspire mergers but are articulated retrospectively.[14] As the *principal* driver for merger, improvement to the services for beneficiaries does not seem to be common enough.

## What is the benefit of mergers?

The purpose of any major decision taken by a charity should always be to provide a better service for the people whom the charity serves. The decision to merge with another organisation is no exception to this rule.

There are three groups of benefits that can stem from a merger. These are:

### Protecting and investing in a valuable asset

A survey by the Charity Commission in 2003 showed that for 44% of charities asked, a merger was a way of rescuing a charity in difficulty.[15] This implies that a key reason to merge is to protect something—perhaps a service or brand—that both organisations feel needs to be preserved. Once the asset has been saved, the merged charity may be able to invest more in improving it.

### Making efficiency savings

Merging with another organisation can save money. Fifty four percent of respondents to the Charity Commission survey said that one of their motivations for seeking a merger was to increase efficiency.[16] Very often there is duplication between charities, and money can be saved by cutting staff, sharing central functions, consolidating branches or exploiting other economies of scale. Any organisation only needs one chief executive, one head of fundraising and one headquarters.

However, alongside potential savings, the process of merging has upfront and ongoing costs.[17] Added to this, there may be costs of redundancy and relocation. However, many of the costs associated with mergers are in the time, energy and stresses of the task, things which are rarely recorded and which may persist for years. Often these costs are underestimated.

### Exploiting synergies

In the context of mergers, synergy is the notion that the value of a charity formed by the union of two organisations is greater than the sum of its parts. Merger allows organisations to exploit links, and to share knowledge and skills to create additional benefits for the people they exist to help. For example, the merger between the NSPCC and ChildLine gave the NSPCC a means of keeping up-to-date with children's worries, giving it information to improve other services. In the case of Thames Reach, simply its increased size gave it authority to speak to government and robustness in negotiations, resulting in greater influence.[18] The merger between Imperial Cancer Research Fund and Cancer Research Campaign created a charity with an even stronger brand and capacity to generate income. Other synergies might be more subtle, such as small changes to the culture of the organisation. Whilst synergies can be the greatest benefit from merger, they are often very difficult to articulate or to put a value on.

## Objections to mergers

Mergers are never straightforward. Often, as elsewhere in life, the devil is in the detail. What can be agreed on paper as a 'match made in heaven' may be very different when organisations with different cultures come together.

There is a sizeable literature looking at the process of merging and what problems might be encountered, so it is not something we look at in this paper.[19] NPC recognises that mergers are not the sole answer to creating a more effective charitable sector. Often they do not work and can cost organisations more than the benefits they yield. However, when done well, mergers have the potential to improve greatly the lives of beneficiaries. As stewards of organisations that exist for public benefit, trustees and managers of charities should always be looking for ways to improve their services.

Leaving aside the concern that many mergers fail to yield the expected benefits, talk of mergers raises the blood pressure of some people for other reasons. These include:

### Mergers are 'anti-democratic'

Some see mergers as a threat to the ability of communities to represent themselves. They worry that small local or niche groups will be swallowed up in mergers with large organisations.

In the UK it is part of our basic democratic right that we are free to form associations and set up new organisations as we wish. Mergers should not be seen as a threat to the sector's diversity and ability to speak for the most vulnerable. But it is wrong to see mergers as a threat to this. Putting beneficiaries' interests at the centre of decision-making can help to counter this threat. Often, organisations that look the same at a casual inspection from the outside have distinctive qualities that that are important to their beneficiaries. This is extremely important to acknowledge. However, it is also important that organisations articulate their distinct benefits—it cannot simply be taken as read.

**Box 1: Competition and the Office of Fair Trading**

Like mergers in the for-profit world, mergers between charities sometimes attract the attention of the Office of Fair Trading (OFT). The OFT is responsible for ensuring that businesses in the UK are fair and competitive, and work well for consumers.

The OFT works to the principle—set out in UK and EU law—that any change in the structure of firms should not adversely affect competition or put the interests of the consumer at risk. It has a duty to look at potential mergers and refer any which it believes have resulted or may be expected to result in a substantial lessening of competition to the Competition Commission.[20]

Some activities undertaken by charities, including collecting private donations and providing goods and services free of charge, fall outside the scope of competition law. However, many others, such as delivering services under contract, retailing and commissioning research, are included. The OFT has the power to investigate any intended merger that it thinks has the potential to undermine competitiveness in an industry. This means that it unlikely to be concerned about mergers between charities with a combined income of less than £10m.

One recent charity that required a ruling from the OFT was the merger between the Imperial Cancer Research Fund and the Cancer Research Campaign in November 2001. This merger created Cancer Research UK, the UK's largest charity, with a combined income of around £240m per annum. The ruling looked at the effect of the merger on competition in charity shop trading, medical research commissioning, corporate sponsorship and intellectual property rights licensing. In no case did the OFT find that the merger would result in anti-competitive behaviour. In fact the ruling went further to say that 'far from being anti-competitive…the merger may well be pro-competitive in the field of research to combat cancer'.[21]

The effect on competition and the role of the OFT needs to be considered in any potential merger between charities.

### Small is beautiful

Mergers create larger charities. Some people instinctively have a strong preference for small local charities, as they see them as more responsive or efficient. This is often based on irrational prejudice, rather than a considered answer to the question 'what would be most effective and deliver best services to beneficiaries?' In practice, the 'ideal' size of a charity differs according to its function. Smaller organisations may be more likely to be most effective for addressing community-based problems such as tackling anti-social behaviour, whilst cancer research requires large-scale investment.

### Mergers are anti-competitive

Competition is a key part of raising standards in any market. Some worry that mergers reduce competition by creating monopolies. In some areas this may be a legitimate concern, although it is unlikely to apply in many cases. The Office of Fair Trading takes an interest in mergers between large charities as described in Box 1.

**Box 2: Where the Charity Commission and the Office of the Scottish Charity Regulator stand on mergers**

The Charity Commission is the regulator of registered charities in England and Wales. Alongside its other services, it has a small Mergers Unit that works with charities to advise and assist them on negotiating the legal aspect of mergers. The unit also functions to ensure that mergers are in the best interest of the charities' beneficiaries.

As a regulator that exists to monitor and facilitate the way the charitable sector works, the Charity Commission does not interfere in the management of charities. In relation to mergers, it remains non-directive and puts its view in its 2003 publication *Collaborative working and mergers*:

*'It is not the Charity Commission's role to push particular charities—they themselves must decide what is in the best interests of their users. But the Commission believes that all charities should consider seriously and imaginatively whether there are ways in which they could do more and better for their users by working together.'*[26]

The Office of the Scottish Charity Regulator (OSCR) is also clear that its role is not to interfere with the way charities are run. The statement below gives its current view on mergers and collaboration:

*'OSCR recognises that this is a challenging financial climate for charities. Each charity will be considering how best to respond in their individual circumstances. Mergers, collaborations, partnerships, and the sharing of services, are clearly options for charities to consider.'*

### Mergers reduce income

Charities worry that merging will reduce income and their ability to generate revenue. They argue that a merged charity will only attract one grant where two charities would normally get one grant each.

It is unclear how strong this argument is. As most funders prefer to fund projects, rather than organisations, there might be little or no adverse impact on income. Practical experience also suggests that this might not be a great concern, particularly in the long term. The examples of established mergers in Chapter 2 all have an income now that is greater or equal to their previous combined income. A merger that is done well and reduces costs could be a powerful argument for attracting more funding. Cancer Research UK gives a dramatic example of a charity that was able to attract more income in its merged form than when it was two separate organisations.

### Mergers destroy valuable brands

Brand is extremely valuable to charities. It is important for fundraising purposes, for gaining public trust and for attracting intended beneficiaries. Some critics worry that mergers can destroy brands, or irreparably damage them. However, whilst mergers pose a risk to what the public thinks of a charity, case studies have shown that the value of a brand can be retained even when it is entirely subsumed within another organisation. For example, when it merged with ChildLine, the NSPCC was extremely careful to retain the distinct uniqueness of the ChildLine brand, and it is still held in high regard.

## Merger in the context of collaboration

Mergers can be seen as on the spectrum of activities in which charities collaborate. Collaboration ranges from small-scale partnership, such as sharing office space or photocopying, to more significant partnership such as working together to campaign or provide services. Merging can be thought of as the extreme expression of a collaboration.

The nature of the charitable sector means that organisations are often happy to help each other out, even when they appear to be in apparent competition. Partly because of this, some say that it is closer collaboration, not mergers, that is the way to achieve the benefits that we described earlier in this chapter.

This may be true in many cases. Mergers are difficult and expensive and are not suitable in most cases. A recent report commissioned by the Baring Foundation recommended that if there are not urgent and despite desperate pressures for a merger, it is sensible to first test the potential of greater collaboration through a programme of joint working.[22]

However, practical experience cautions against simply arguing that greater collaboration can bring the benefits charities desire. Studies show that collaborations are frequently unsuccessful and many partnerships either end abruptly or peter out.[23] One expert we spoke with suggested that collaboration works best when it is between partners that are equally strong or equally weak, as many relationships break down if there is suspicion of one taking advantage of the other.[24]

Furthermore, some benefits of mergers are not achievable through partnership. Many potential efficiency savings and economies of scale, such as lower management and premises costs, will not be available. In fact the cost of managing the partnership might even negate any savings achieved.[25]

Overall, our intention here is not to criticise collaboration or efforts to increase partnership between charities. There are many benefits from charities working closer together. However, we wish to highlight that, like mergers, other forms of collaboration are not always a straightforward solution.

# Do mergers create value?



This chapter looks at the question of whether mergers improve the work of charities, and how they would achieve this. If so it begins with four case studies of recent mergers. It then discusses the value by created mergers and some of the difficulties in making a judgment on success.

## A measurement challenge

When you speak to a charity that has undertaken a merger, it will almost always say—at least publicly—that it was a success.

Measuring the value created by charities in any circumstance is a difficult task. Judging the success of a merger, particularly from an outside perspective, is no exception.

Unlike measuring the performance of for-profit companies, there is no simple metric to express the benefits that charities give to the lives of people. The complexity of a process like a merger usually means that there are two sides to consider.

## Examples of recent charity mergers

Below are four case studies of mergers. The examples have been selected because they cover a range of different areas, involve different sized organisations and are known to have different causes. In each case we provide a short description of the charity's activities, describe how the merger came about, and outline some of its costs and benefits.

### Example 1: NSPCC and ChildLine

NSPCC works to end child abuse across the UK through a range of local projects and high-profile national campaigns. It is a household name and one of the largest fundraising charities in the UK. Before the merger, it had an income of around £116m per annum.

ChildLine is a confidential freephone telephone helpline available for children to call if they are frightened, feel that they are at risk, or have been victims of violence. It is staffed by volunteer counsellors in 14 regional offices around the UK. It was established in 1986 by Esther Rantzen—who is president of ChildLine and a trustee of NSPCC—and before the merger had an income of £15m per annum.

The trustees of ChildLine approached NSPCC in summer 2005, as they were concerned by the financial situation of the charity, and in particular that reserves were at a very low level. After a period of discussion and due diligence, the intention to pursue a merger was announced in November 2005. The merger formally took place in March 2006.

The merger made sense and had clear benefits on both sides. ChildLine provided a nationally recognised and respected service that seemed to fit well into NSPCC's portfolio of work. As one senior figure at NSPCC remarked, *'If ChildLine didn't exist we would have had to invent it.'* Joining forces with the NSPCC gave ChildLine a secure home for its work and the potential to make much-needed investment, all underpinned by a capacity to generate income that is the envy of the charity sector.

After the merger, efficiency savings were made by bringing ChildLine's regional offices into some of NSPCC's branches. There were reductions in fundraising, finance, IT and other support costs, with the loss of some central office staff. NSPCC kept all ChildLine's operational staff. It was careful to protect the brand and made it clear that ChildLine retained its unique service.

Since 2006, ChildLine's services have improved, ultimately resulting in more calls and more children getting through to counsellors. NSPCC was able to make badly-needed investments in the service, upgrading IT facilities and, more recently, adding online and texting capacity. Since the merger, the rate of answered calls has increased from around a half to two thirds. The number of answered calls also continues to grow and at the last survey was up 20,000 year-on-year over the six months between April and September 2008. The total number of calls made to ChildLine is now in excess of 1.2m.

The information provided by ChildLine also had great benefits for NSPCC. ChildLine is an extremely valuable source of information on what children worry about, which had previously gone unused. One of the benefits of merger was to give NSPCC access to this information. Recent coverage in the press on the mental health of children and suicide is based on this information and has helped NSPCC raise the profile of some poorly understood issues. The information also keeps children at the centre of the organisation's consciousness and poses an ongoing challenge to how NSPCC prioritises its services.

The merger was not without difficulties. In particular, it required the time and energy of senior staff for six months. Personnel issues required careful management, particularly to retain ChildLine volunteers and to ensure that the trustees of ChildLine felt that their concerns had been addressed. However, some of the difficulties that often emerge post-merger were not a concern. For example, when staff were transferred from ChildLine to NSPCC they found that they were better off in their terms of employment.

Three years on the merger can be considered a success.

### Example 2: Thames Reach and Bondway

Thames Reach provides a range of projects and advice services to help London's homeless people find stable accommodation, employment and get their lives back on track. Thames Reach had previous experience of merging, having taken over two smaller organisations a few years earlier. Before the merger in 2001, its income was £6m per annum.

Bondway worked with a very similar group of people in London. Its income was £3.5m per annum.

Although the two organisations had only limited history of working together, they were well-known to each other and had regular contact on the streets of central London. The question of merging was triggered by the Bondway chief executive's announcement of his intention to retire. The trustees of Bondway were also concerned that they would not be able to achieve the future growth that they needed to sustain their infrastructure. They appointed a consultant to look at the options for joining forces with another organisation, and through this process identified Thames Reach as their preferred merger partner.

Once the prospect of merging had been raised, the boards of both charities agreed to exploratory talks and established a merger negotiating group involving a mixed group of staff and trustees from both organisations. There was an early-stage meeting to discuss potential 'dealbreakers', in particular the leadership of the new organisation. It was agreed that the chief executive of Thames Reach would lead the merger process and be in charge of the merged organisation. A grant-making trust agreed to fund the consultancy costs, and six months of negotiation, integration and due diligence work followed. The merger was finally confirmed in October 2001.

Two years after the merger, Thames Reach evaluated its progress by looking at how its services had changed and surveying staff. It found that the merger had led to improvements and expansion to services, helping it to provide a more comprehensive service to more people. The teams that helped homeless people find work and accommodate people with drug and alcohol problems had both significantly increased the number of clients they were working with. Thames Reach had also created new 'floating support schemes' to assist clients living in their own flats. The result was greater consistency among services and a standard approach to performance monitoring and gathering data, aided by a cross-organisation internal audit system. However, the report was honest about opportunities for further improvement, the need for better integration among services and a reduction in some of the bureaucracy that had been created in the wake of the merger.

The merger was also beneficial in raising the profile, influence and reputation of the charity. This meant that Thames Reach was able to exert greater pressure on government and other funders, securing grants when it might have been unsuccessful in the past.

The resources and infrastructure improved markedly after the merger, particularly in regard to improved financial stability. Pre-merger, neither Thames Reach nor Bondway had sufficient organisational infrastructure in terms of finance, IT support, fundraising or administration. The merger meant that the new structure could benefit from economies of scale in these areas. For example, Thames Reach had more capacity to campaign on behalf of homeless people.

Today, the trustees, staff and clients of Thames Reach are all positive about the progress made since merger. The charity has an income of almost £20m per annum and helps around 5,000 homeless people each year. It also was 44$^{th}$ in the Sunday Times' *'Top 100 Companies to Work For'*. This expansion was only possible because of the increase in financial strength, influence and range of services achieved through the merger. The staff and trustees acknowledge that even more can be achieved but that the decision has been in the best interest of the homeless people in London.

### Example 3: Mind and Mental Health Media

Mind is a national organisation that provides services for individuals with acute mental health problems. It is a national association that works with around 200 local Mind organisations, all of which are independent charities. Before the merger in 2009, its income was £19m per annum.

Mental Health Media (MHM) is a smaller charity that promotes the positive perception of people with mental health problems in the media. It runs annual awards to recognise good practice. Before the merger, MHM had an income of £600,000 per annum.

At the beginning of 2008, MHM was struggling financially. The trustees and management were finding it increasingly difficult to see a long-term future for the organisation. Too much of their time and energy was being spent trying to raise funds and they were concerned that, even if the work could be sustained, they would not be able to achieve what they wanted. With the support of its funders, MHM undertook a study to explore the idea of merging. As part of this work, it approached the chair and chief executive of Mind. The two charities knew each other and already had links as part of the national 'Time to Change' campaign, which aims to tackle discrimination against people with mental health problems. They also shared historic links as it was a former employee of Mind that established MHM in the 1960s.

Discussions between the two organisations began in early summer 2008. A steering group of trustees and staff from the two organisations was set up to explore the possibility of a merger. From the outset, this group was very open about the concerns and problems a merger might bring. The group recognised the value of preserving the work of MHM and also what it could add to Mind's campaigning work. Part of MHM's mission was to provide a voice for people with direct experience of mental distress, which fitted within one of Mind's strategic aims. The missions of the two obviously overlapped.

The merger agreement was signed on 31 December 2008. It was agreed that MHM would wind down and pass all of its work to Mind. The chief executive of MHM moved across to occupy a senior business development position in Mind, with her first job to manage the handover. All staff were also retained. The chair of MHM joined the board of Mind, and the remaining trustees were retained as part of a media reference group. Although the merger went smoothly and there were few conflicts, it was still costly in terms of the time and energy of key staff.

The merger had the primary benefit of preserving MHM. Mind recognised the distinctive value of the organisation to people with mental health problems, in both its expertise and brand, and was not willing to see this disappear.

There were other significant benefits from the merger, some of which are still to be realised. MHM had suffered from spending too much of its time raising money or managing business processes. As part of Mind, MHM's work now has greater financial security and access to the central support it needs to run more smoothly. It can therefore concentrate on its core work: enabling the voice of people with direct experience of mental distress to be articulated and heard.

The chief executive of the merged organisation says that taking on MHM as part of Mind has brought new thinking and skills. The tangible benefits of this are as yet unclear but there are early signs that both organisations can learn much from one another. For example, MHM has been better than Mind in the past at involving people with mental health problems in developing work and shaping the message it sends to the public. Mind recognises that it can learn and improve from this approach.

### Example 4: School-Home Support and School-Home Liaison

School-Home Support (SHS) places trained workers in schools to provide mediation between the school and home, and to offer practical support for vulnerable children. It is based in east London and works in schools across London and Yorkshire. Before merging, it had a turnover of £2.9m per annum.

Photograph supplied by Kristian_Buus_2

School-Home Liaison (SHL) provides a similar service in west London. Prior to merging, it had a turnover of £0.7m per annum.

Discussions of a merger between the trustees of SHS and SHL began in 2004 when the long-standing director of SHL announced her retirement. A lot of background work was carried out but the merger did not proceed, and SHL appointed a new director on a two-year contract. The idea of a merger arose again in late 2005 when that contract came to an end.

From the outset, none of the trustees of either organisation doubted that a merger made sense from a strategic and common sense point of view: the charities provided a very similar service to the same type of clients, and their charitable objectives were directly aligned. SHS and SHL had historical links from when SHL had been established by the Anglican Diocese of Westminster based on SHS's model. Since then the organisations had developed differently.

As no one disputed the principle of the merger, it was done extremely rapidly. It was formally completed in around six weeks and announced on 11 April 2006. Despite the apparently straightforward nature of the agreement, the practical application brought many more issues.

**Box 3: Do mergers create value for companies?**

Mergers among companies are big business. As a result, it is important to understand whether mergers and acquisitions add value.

Studies of mergers tend to focus on the performance of company shares over a given period, usually a few days, around the announcement of the merger. This measures the reaction of the market and the value created for shareholders. Studies tend to concentrate on performance over a short period because of the difficulty of calculating the difference between expected and actual long-term returns in the economy.

A study of 3,688 mergers across a 25-year period indicates that, on average, during the three-day period around the merger announcement the aggregate value of shares increases by 1.8%.[27] However, the value created is not balanced evenly between the two firms. Whilst the value created for the target company is +23.8%, for the acquirer there was a reduction of 3.8%.

However, this average does not show the full picture. In a second study, although 58% of mergers destroyed value for the acquiring company, among the 42% of companies that created value returns were on average 6.2%.[28]

So mergers can destroy value but they can also create substantial value.[29] In general they seem to create shareholder value, but most of the benefits accrue to the target company. However, where they are successful the returns are often very great.

Importantly, mergers offer companies and investors a great opportunity. They are a risk but they are very often a risk worth taking.

Following the merger, a lot of effort was spent trying to manage different interests. Both parties agreed that the chief executive of SHS, who had been in post for a year, should lead the merged organisation, but the role of the trustees and staff of SHL had to be decided. It was agreed that five trustees of SHL would join SHS's board. SHL effectively became the west London branch of SHS. The one remaining senior manager joined as the branch manager and the former SHL office manager took on a new administrative role. Differences in pay and conditions were difficult to manage and in the year that followed both these staff left SHS.

Trustee meetings continued to discuss post-merger issues for some time. Both trustee bodies had a strong ethos, particularly with representation of the Diocese of Westminster on the board of SHL.

The managers of SHS report that the merger brought benefits to the services provided to children and schools. Bringing together two sets of school-home support workers brought an increased pool of knowledge and experience where each group could learn from the other. For example, pooling resources meant that the charity had a greater chance of responding positively when dealing with a parent for whom English was not a first language. School-home support workers had greater opportunities to learn from each other, and following the merger some chose to create a buddy scheme used by SHL. Having a presence in more schools also allowed continuity in working with vulnerable children when they moved schools. The contacts and networks of schools allowed the newly-formed charity to target schools that did not have the service and to ensure a better coverage across London.

One of the peculiar aspects of the merger was that although money was saved in premises costs, there was little room for other efficiency savings. SHL had been run with a very small central infrastructure, with key functions such as finance and HR outsourced. SHL had a low unit cost as a result of having all systems for training, performance management and quality assurance carried out by the director and her deputy. Supervision for school-home support workers was provided in a group structure rather than SHS's preferred one-to-one model. Post-merger, the newly-formed organisation had to invest to bring these systems up to the level of SHS. As a result, the merger proved more costly than anticipated, but has produced a more consistent service for schools and children.

## Determining the success of mergers

These four examples give us an insight into both sides of a merger. In each case, the mergers had considerable benefits but also had costs.

In Chapter 1 we outlined three benefits of mergers: protecting a valued asset, achieving efficiency savings, and exploiting synergies.

Of these, the first is the easiest to describe. Protecting an asset—such as Mental Health Media's expertise and campaigning around challenging the negative perception of mental health problems—is an obvious benefit. The question that needs to be asked is relatively straightforward: 'in what ways would society be worse off without it?'

An analysis of organisations pre- and post-merger can reveal the extent of efficiency savings and whether a merger has been successful at achieving economies of scale. The reduction in head office staff and relocation of premises that resulted from the NSPCC and ChildLine merger can be assigned a financial value. More complex is determining how these efficiency savings translate into benefits for the vulnerable people charities are trying to help. Do they result in a lower unit cost, enabling the charity to reach more people? Or do they represent a false economy, undermining service quality? For this reason, cost savings need to be looked at alongside evidence of impact.

The most difficult group of benefits to capture is the synergies that occur from mergers. Even where these benefits can be described, for example in Thames Reach's increased profile and influence, it is difficult to pinpoint the value and impact on the vulnerable people charities are trying to help.

However, this is not the end of the story. Any benefits must be weighed against the costs of merger, both in terms of the direct expenses of legal fees, relocating staff and redundancy settlements, and the indirect time and energy expended.

## Some mergers succeed, some do not

Judging the success of mergers between charities is not easy. Although there are very few detailed accounts of the costs and benefits of mergers, we know that some mergers are not successful—or at least do not produce the anticipated benefits. As we might expect, this is similar to what we see between for-profit companies. Box 3 looks at the question of whether for-profit mergers create value.

The literature suggests that where charity mergers end badly, this is often down to a failure in the process, perhaps because of personal conflicts, ideological differences or resistance from staff and beneficiaries. Elsewhere, there are many examples of mergers that have failed before any papers were signed, including high-profile discussions between Shelter and Crisis, and previous attempts by Age Concern and Help the Aged. Box 4 describes some of the reasons why mergers fail.

In the next chapter we explore the question of why mergers between charities are not more common. We look at the structure of the charitable sector and the difference with the for-profit sector.

**Box 4: Reasons why mergers fail**

Mergers require a substantial reorganisation of services and the balance of power between two organisations. Due to the complexity of the process, mergers often fail.

When mergers do not work it is because two parties cannot agree or are incompatible in some way. There are many possible reasons for this.[30] These include:

**Strategic misjudgement.** Services may not fit together as well as anticipated, and one part of the organisation may conflict with or detract value from another part. Even with the full support of management and staff, the merger still may be unsuccessful.

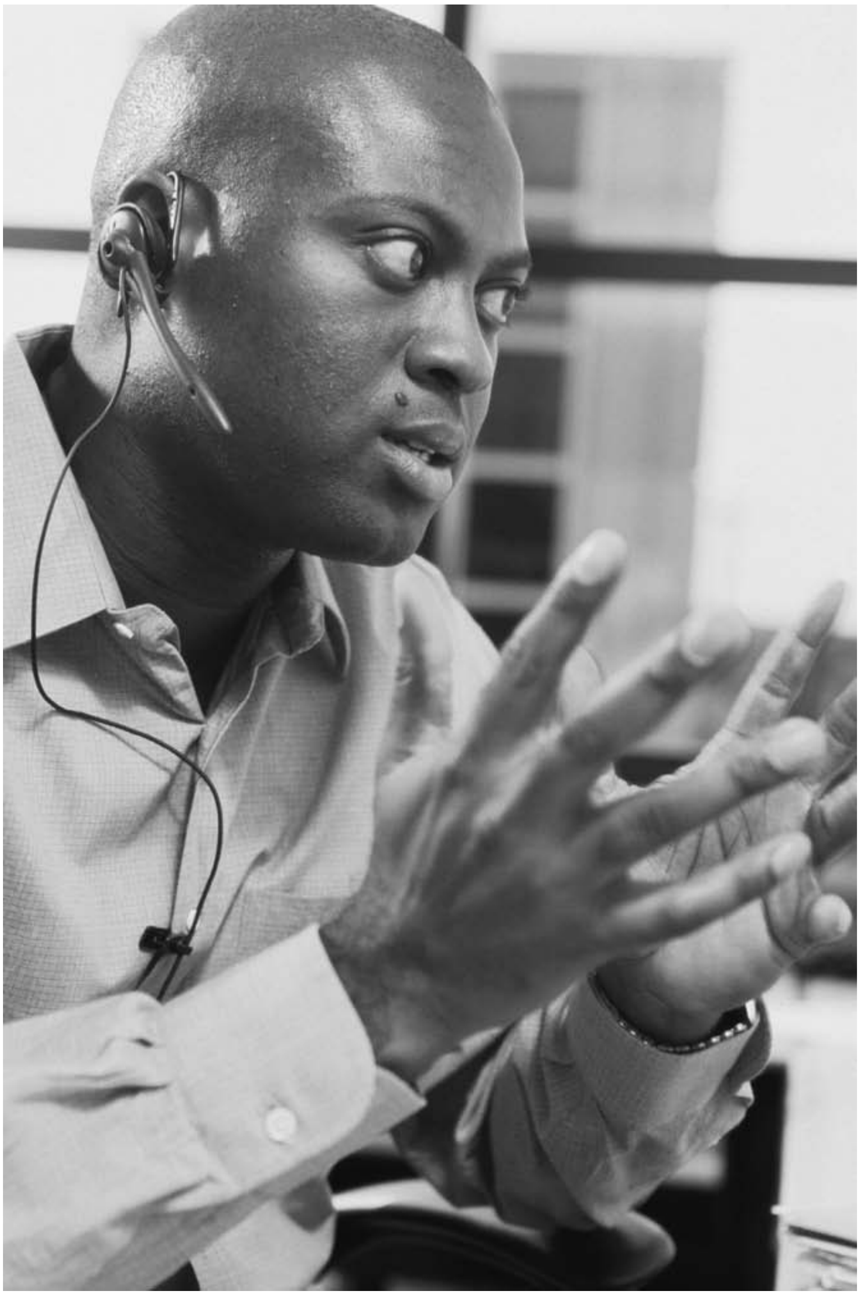
**Culture.** Two organisations may be very different places to work. Something as simple as attitudes towards the working day and the culture of staying in the office beyond contracted hours can lead to resentment in the workforce.

**The balance of power.** After a merger there are typically a reduced number of senior positions. Each charity needs only one chair, one chief executive and one head of fundraising. This means that there are almost always losers in the process. Agreeing the composition of the board and senior management team is perhaps the most crucial decision that needs to be made in the process of agreeing a merger.

**Personal conflict.** This is often intensified in the case of merger where one person or group feels that it has 'lost out' in the reorganisation.

**Resources and costs.** Merging is expensive in the time and energy needed to see it through. This cost may outweigh the longer-term gains.

**Opposition.** Opposition to merger may come from a number of sources. These include employees who feel that their position is threatened, users who feel they will lose valued services, and other charities who feel that bigger players in the field will threaten their position.



Photograph supplied by MIND

# Why are charity mergers not more common?

This chapter looks at why mergers between charities are not more common. To help understand this, we look at the structure of the charitable sector and what defines the trends and behaviour around mergers. We compare charities with for-profit companies, looking at how they differ and what they might learn.

## A bird's eye view of charities today

Mergers between charities, particularly larger organisations, do not seem to be common. In a recent Charity Commission survey looking at trends during the recession, just 3% said they had considered merging.

The charitable sector has grown significantly in the last ten years, buoyed by record donations and increased government spending. The number of charities has increased significantly over the last decade, rising from 120,000 in 1994/1995 to almost 171,000 in 2006/2007.[31] In 2006/2007, the Charity Commission registered 6,800 new charities in England and Wales.[32] This growth has led many commentators to observe that there are 'too many' charities. Box 5 discusses this claim.

Charities are very diverse. There is not one single market but instead many 'sub-sectors' around which activity is organised. Although all charities may face some similar concerns, the forces that shape charities working with victims of domestic violence are very different to those that face charities that provide volunteers to help children with reading. The conditions in each sub-sector are different and may be more or less conducive to partnership working. For example, charities that tackle disability issues have a strong shared vision, which leads to many partnerships and alliances. In contrast, community organisations tend to be small, address local issues and often survive on a single source of funding. In these cases, organisations tend to work without the support of similar partners.

## Why for-profit companies merge

To increase its value, typically a company must grow. One option is organic growth, increasing sales by growing the existing customer base, creating new products or expanding into new areas. However, this is often slow, particularly in established markets.

The alternative is to grow by merging with or acquiring other companies. For individual firms, **mergers are a means of growth**. According to a recent study in the Harvard Business Review, a typical large corporation derives 30% of its revenue growth through acquisitions.[35] For example, to become the fourth largest supermarket chain in the UK, Bradford-based WM Morrisons acquired rival Safeway in 2004, increasing its turnover from around £5bn to more than £12bn per annum overnight.

For individual small firms, merger provides shareholders with a **means of 'exiting' their investment**. Small companies are sometimes established with the explicit aim of selling to a large company at some point in the future. This has become particularly common with the expansion of the high-tech and service industries. For example, in 2005, the internet company Yahoo! acquired Ludicorp which developed the photo-sharing site Flickr. The shareholders of Ludicorp were open to the idea of a take-over.

Mergers and acquisitions are strategic actions taken by companies to increase their value. Taken in the context of a whole industry, the prevailing view of mergers and acquisitions is that they are powerful **instruments of market discipline**. They tend to favour stronger

**Box 5: Too many charities?**

In an article in June 2008, Stephen Bubb, Chief Executive of the Association of Chief Executives of Voluntary Organisations, posed the provocative question 'are there too many charities?'[33] The results of a survey by MORI show that 58% of the public think so.[34] Privately, many of the most influential people in the charitable sector are also sympathetic to this view, even though their position does not always allow them to say it.

Arguments about the overall size of the charitable sector feel a bit pointless. It is more complicated than simply saying that there are too many charities. There are parts of the sector where there are more than enough charities, but other parts where there are not enough. For example, few would argue that more cancer charities would increase our chances of finding a cure or helping sufferers and their families, but a strong case could be built that there are not enough organisations helping young people who are not in education, employment or training.

Each part of the charitable sector needs to be examined on its own. Duplication and waste is not welcome, but it is also vital to retain an innovative and entrepreneurial sector where new organisations can establish themselves (and unsuccessful organisations fade away).

companies, hasten the decline of weaker competitors, exploit untapped synergies, and consolidate fragmented industries. All this has the aim of creating greater value for shareholders.

## How mergers between charities are different

As the discussion and examples in Chapters 1 and 2 show, mergers between charities seem to be driven by crisis. Merger is very often a last resort where struggling charities tend to approach more robust organisations. Improvements in the value of services for beneficiaries does not seem to be a common principal driver for mergers.

This defensive approach to merger is in contrast to the growth-seeking approach that we often see in the for-profit world. In contrast to what happens in charity mergers, companies seeking to grow, tend to approach their targets.[36]

## Why is there this difference between charities and companies?

Charities behave very differently to companies approaching a merger. What is it about the structure and behaviour of charities that causes this?

### Culture

Mergers are frowned on in the charity sector. In for-profit companies, acquiring companies is seen as part of normal business. Among charities, any such behaviour is seen as 'predatory' or 'aggressive' and is avoided. This means that merging as a means to growth is rare, even among large charities. The NSPCC, which went from a £50m organisation a decade ago to a £150m giant today, achieved this feat primarily through fundraising and organic growth (with the exception of the merger with ChildLine).

Furthermore, merger is a difficult and can be a painful process. It often implies job losses. This means it is an uncomfortable and perhaps 'uncharitable' decision to make, particularly if the decision is not forced. Without the imperative of financial or any other crisis, it is easier just to continue business as usual.

### Personal passion

Charities are often established in response to a perceived injustice or traumatic life event. They are created with the passion and energy of their founder. As a result, individuals tend to identify very strongly with a charity. Merger is a threat to this special relationship. During the research we spoke with the founder of a charity who agrees with the concept of merger, but found the idea unpalatable when applied to her own charity.

### Ownership and control

In for-profit mergers, much is made of the aspects of ownership and control: share ownership, voting rights and board composition. A company that acquires another company must compensate its shareholders by buying their shares, whereupon they gain control of it.

Unlike for-profit companies, charities do not have these structural sources of control. Although it is trustees that have the final say in any major decisions, no one owns a charity in any straightforward sense. Corporate control is in the hands of both trustees and management.[37]

So when charities merge, the absence of share ownership means that there is no clean way of transferring control, and there is no way of compensating trustees and managers who lose their control. Trustees and management of charities are understandably reluctant to give up control as their interests are wrapped up in the status quo.

## Why are charity mergers not more common?

The culture, personal passion and structure of ownership and control in charities means that mergers are not as common as we might expect. Compared to for-profit companies, charities lack sharp incentives to seek out the benefits of mergers—until, it seems, their hands are forced by crisis.

The self-interest of shareholders encourages mergers between for-profit companies, as they strive for financial gain. Conversely, the self-interest of trustees and managers may discourage mergers between charities, as they seek to protect what they have.

This conclusion might be surprising to an outsider but anyone who has worked in the charitable sector knows that mission does not drive decisions alone. All of us have egos and self-interest which can sometimes blind us to the needs of the community we are trying to help.

# How can mergers between charities be encouraged?

This chapter explores how mergers between charities could be encouraged. It identifies how greater information and education could be part of a solution by creating incentives for trustees and managers of charities to look at opportunities to merge. It points to some parts of the charitable sector and some organisations where NPC believes there may be a compelling case to consider merger.[38]

## There are too few mergers

We have argued throughout this report that there are too few mergers in the charitable sector. We know this from piecing together evidence from a variety of sources and from comparisons with the for-profit sector. In particular, there seem to be very few mergers that are *primarily* driven by a desire to make charities work better for the people they serve.

Everyone working with charities can identify areas where services overlap or where organisations could benefit from working together. There are also examples of where charities could merge.

## Using New Philanthropy Capital's research

NPC has a unique body of research on a range of social issues and the charities that address these issues. Over the last six years, NPC has published more than thirty reports looking at subjects including domestic violence, cancer, literacy and refugees and asylum seekers.

This research provides a basis for a critical assessment of the structure of the charitable sector. Using it, we can highlight duplication, spot potential synergies and make suggestions about where mergers and alliances could be beneficial.

## Compelling cases to consider merger

This chapter describes five areas where NPC believes that there may be a compelling case to *explore the possibility* of mergers. These are:

1. Literacy charities working in schools
2. Breast cancer research charities
3. Helplines for people in debt
4. A mental health helpline
5. Grant-making trusts

In none of these cases are we advocating a merger without careful further consideration or due process. Indeed, these charities may already have considered mergers and decided, for sound reasons, not to proceed. There are many reasons why a merger cannot occur, and there are other possibilities that can work, including stronger alliances. However, for the benefit of the vulnerable people they exist to serve, charities have a duty to ask whether a merger could help them to provide a better-quality service.

### Example 1: Literacy charities working in schools [39]

It is the role of primary schools to teach children basic skills including how to read and write. Alongside schools, there are a number of charities supporting this aim. In the UK, around 20% of young people fail to reach the expected standard in English at age 11.

The most common approach used by charities to literacy is training and placing volunteers in schools. There are several organisations across the country that apply a very similar approach and share identical goals. These include the national charity Volunteer Reading Help, Bradford-based Reading Matters, Literacy Volunteers in Nottingham, and RSVP's reading volunteers, which operates UK-wide.

Closer working could bring benefits. The charities face very similar challenges: from recruiting, training and managing volunteers, to persuading schools to pay for their services. Perhaps the biggest barrier to improvement in the sector is that almost all of these charities find it difficult to maintain the appropriate level of central infrastructure needed to operate effectively. Pooling resources could allow the organisations to develop an appropriate infrastructure and achieve cost savings by creating more efficient volunteer recruitment processes, and combining expertise in training and marketing to schools. This could enable the organisations to provide a better, more consistent service to children.

One strength of these charities is that they are locally-based and benefit from the support of their communities. The national charity

Volunteer Reading Help has shown that through its branches and local committee structure it can retain its local roots.

Furthermore, charities in the education system lack a truly strong advocate and presence on a national scale. A new alliance or merger could create such an organisation allowing investment in campaigning and policy.[40]

NPC believes that in the interests of children that these charities exist to help, there is a compelling case to explore the possibility of merger. There would be significant challenges to overcome and it would likely require substantial financial support from an external source but in the interests of children struggling with literacy, it could yield great benefit.

### Example 2: Breast cancer research charities [41]

Breast cancer affects one in nine women in the Western world, with over 45,000 women diagnosed each year in the UK, and hundreds of thousands more affected through the pain of watching a friend or relative suffer. Over recent decades, the disease has deservedly become a popular cause, which has resulted in many new charities being established.

The way the sector has developed has resulted in much duplication of effort. There are several national charities, and many local ones, all spending money to raise funds for research, education and support, and all are competing with one another (as well as competing with the larger general cancer charities, such as Cancer Research UK, which has its own breast cancer research teams).

One obvious example of duplication is with two of the largest, and similarly-named, standalone breast cancer research charities: Breakthrough Breast Cancer (Breakthrough) and Breast Cancer Campaign (Campaign). Both charities raise money for research. They are distinct in that Breakthrough funds its own, world-class, research units, as well as education and advocacy work; while Campaign funds breast cancer scientists in other institutions. However, this distinction is all but invisible to potential donors. This is something that the charities acknowledge, prompting regular dialogue between them about closer collaboration.

As we recognise in our discussion, it is important in any market to have competition for funds to ensure that excellence is constantly sought. But it is also true that at least some of the money that two such organisations spend on their fundraising operations each year might be better spent on the research itself. In their audited accounts for the financial year 2007/2008 we can see that Breakthrough spends more than £6m on the costs of generating funds and Campaign spends almost £4m. Working together, these costs could be cut significantly. To put this in context, a team of five researchers, working on a breast cancer research project over three years, might cost around £1m.

The charities express concern that a merger would come with some risks to lucrative sponsorships from rival corporate donors. The sums involved run to millions, so losing a relationship in the short term could cost a significant research project. But, NPC believes that merger could allow charities to make an even more powerful case to corporate sponsors because they can highlight more efficient allocation of resources. If a company really cares about breast cancer, then its continued support post-merger will be even more effective.

Cancer charities have not been averse to closer collaboration, and the past decade has seen some substantial mergers. In 2001 the Imperial Cancer Research Fund and Cancer Research Campaign joined forces to create Cancer Research UK. This example is strikingly similar, though on a larger scale, to Breakthrough and Campaign. Before they joined forces, Cancer Research Campaign funded scientists in academic departments and other institutions to carry out research, while the Imperial Cancer Research Fund had its own research centres and staff. The agreement that created Cancer Research UK was principally driven by a desire to see progress in the fight against cancer and achieve the benefits in knowledge-sharing and cost savings that a merger would bring.[42]

More recently, CLIC and Sargent formed CLICSargent and, last year, Macmillan took over Cancerbackup. In each of these cases, organisations that were complementary to one another merged, giving the newly-formed charities significant economies of scale and, in most cases, a more powerful brand.

### Example 3: Helplines for people in debt [43]

The UK is heavily indebted. One person is declared bankrupt every four-and-a-half minutes and total consumer lending tops £232bn.[44] Debt causes problems for individuals and society, including exacerbating poverty, stress and relationship problems. When people are beyond the point of being able to help themselves, they need to seek advice from debt professionals. This includes accessing advice by telephone and the internet.

The two biggest free-to-client phone-based debt advice providers are National Debtline (part of the Money Advice Trust) and the Consumer Credit Counselling Service. Both are charities and help a wide range of clients. National Debtline is a government-backed service that provides free advice to individuals. The main part of its work is to offer phone-based counselling and provide information, including self-help guides. After giving initial advice, National Debtline does not directly help individuals manage their debt but will, where appropriate, refer callers to other providers who help them create debt management plans (2-3% of National Debtline's callers).

Consumer Credit Counselling Service (CCCS) also offers free phone-based advice and acts as a first point of call for individuals who need help. However, in addition, the CCCS actually creates and administers debt management plans. It is one of the two providers to whom National Debtline refers clients.[45]

CCCS's phoneline is funded entirely from income from loan and credit providers who contribute 10% of the value of any recovered debt. By contrast, National Debtline's phone service is funded predominantly by two sources. First, government, which gives it grants. Second, voluntary income—mainly contributions from the private sector. However, where it has referred clients for debt management plans to other providers it also gets part of the creditor contribution. The small proportion of clients that end up on debt management plans generate about 15% of National Debtline's funding.

Both National Debtline and CCCS provide a number of other services alongside the main advice line. CCCS provides online advice through its Debt Remedy service, and National Debtline has a sister service, Business Debtline. Other initiatives are funded by voluntary grants. Money Advice Trust also provides free training for the free-to-client money advice sector, has a research and policy function and promotes the benefits of money advice.

An analysis of the structure of the industry raises questions about the rationale of separating initial debt advice from debt repayment planning. CCCS is able to generate enough revenue from the debt management plans to fully fund its entire service and create a surplus. National Debtline is currently 29% funded by government. NPC considers that if the two organisations were merged, it could create scope to reduce the level of subsidy required by National Debtline and generate overall efficiencies.

A merger could leverage the different strengths of the organisations. Although it helps fewer people, National Debtline has a more natural and recognisable brand than CCCS. It receives more calls than it is able to answer. In contrast, CCCS's strength lies in its low cost model of providing debt advice. Unlike National Debtline, CCCS uses a triage system to manage its expert counsellors. A merger could combine the strength of National Debtline's brand with CCCS's approach to answering calls, enabling the service to help more people.

Money Advice Trust points out that its trustees are open to debate about merger, and have discussed it with CCCS in the past, but concluded the disadvantages outweighed the benefits. It highlights concerns about reduced competition, continued ability to reach very excluded clients and funding of other services. These are valid considerations and would need to be factored in to any decision.

Still NPC believes that there is a plausible case to consider merger. The argument that the service could be run with a reduced subsidy, combined with the benefits of brand, capacity to answer calls, a full online debt advice service, and the savings in management and central operations that might result, means that it could be beneficial to people using the service. A merger would also reduce the confusion among the public as to which free telephone helpline to contact.

A final consideration is timing. Given the current debt crisis, merger is probably not something for the short-term. At the moment, both organisations are facing rising demand as the recession bites, and are rightly focused on delivery. But medium-term, it merits continued reflection.

### Example 4: A mental health helpline [46]

One in four people are affected at some point in their lives by mental health problems. These range from anxiety and depression to schizophrenia. Helplines exist to provide support and advice for people in a crisis, and are part of charities' contribution to mental health.

From its research into mental health in 2006, NPC learnt that people with mental health problems value helplines and email services, and the ability to get advice from places which are outside the medical environment. The popularity of the Samaritans—it receives five million calls a year—demonstrates a need for telephone support for people in distress. But Samaritans is a listening service, and doesn't offer specific advice about mental health. This is where SANEline, another national helpline, can help.

SANEline is staffed by 120 or so highly-trained volunteers and is open between 6pm and 11pm every night of the year.[47] An email service, an online discussion board, and SANE Caller Care, which offers telephone support to people with the most complex problems, are all part of SANEline's suite of services. It answers 2,500 calls a month (equivalent to 30,000 a year), so SANEline is a great asset to the UK mental health system.

However, NPC has heard that SANEline struggles to meet the demand for its service. This is difficult to establish definitively, because

SANEline does not publish its pick-up rate. Opening hours are limited to evenings, and NPC understands that the line is frequently engaged. SANE tells us that it is currently oversubscribed with volunteers, and has increased capacity. But NPC still thinks it likely that there are callers out there whose needs are not being answered. By comparison, Samaritans reports a pick-up rate of 92%, so callers are highly likely to get through first or second time.[48]

To increase the number of calls it can manage and help more people, NPC believes that SANEline needs greater investment. SANEline is part of SANE, whose income in 2008 was £1.1m, part of which is devoted to research and campaigning activities. One option would be for SANEline to find more funding to cover volunteer costs, but NPC is only too aware that growing charities of SANE's size is difficult. Another solution would be a merger with a large mental health charity that delivers services. By joining forces with SANEline, the larger charity could invest in SANEline while benefiting from the information coming in from service users. SANEline's national presence could complement local activities. NPC has not investigated a possible partner for SANE. SANE tells us that it has recently entered into an agreement with a charity which helps people with suicidal depression to share resources at the Prince of Wales International Centre for SANE Research.

Of course there are challenges to any merger. Value could be lost by separating SANEline from the charity's other campaigning and research activities, although a larger charity might also be interested in SANE's research capability—in which case the activities could be kept together. But there is the much larger question of finding an organisation that 'fits'. Ultimately any merger has to benefit the end users, and it is the end users that should be foremost in any trustees mind when considering strategic options for charities.

### Example 5: Grant-making trusts

Grant-makers' goals are similar to other charities—improving the lives of vulnerable people—but the means by which they achieve this—distributing money to other organisations or individuals—differs.

All grant-makers have different strengths (and weaknesses). Some are experts in particular subject areas, such as education or community-based projects. Some have developed specific skills around how they invest, such as identifying and backing entrepreneurial individuals or funding medium-sized organisations to scale-up. Some have the capacity to manage processes better than others, such as dealing with large amounts of applications or measuring the results of their work.

If mergers can make operational charities better at helping people in need, why shouldn't this logic also apply to grant-makers? In some cases, by joining together, it seems clear that grant-makers could experience benefits in synergies and cost savings. Some foundations may possess skills and experience that could benefit each other, whilst simultaneously reducing the cost of making grants. As with operational


Photograph supplied by School-HomeSupport_Hester_Marriott charities, this may be in the interests of the vulnerable people that foundations exist to serve.

Mergers between foundations in the UK are not unheard of. For example, after many years of working together, in 2005 the Chase Charity and the Lankelly Foundation resolved that they should amalgamate to form the LankellyChase Foundation.[49] Grant-makers are fiercely independent – this is one of their key strengths but it can sometimes be an obstacle to collaborative working, as both trustee boards tend to want to retain a final say over grant decisions. There are lots of examples of informal working together, such as grants officers meeting up to share experiences or co-funding projects on the basis of a 'gentleman's agreement', but more formal arrangements are rarer.[50] An Association of Charitable Foundations event in November 2006 heard that although collaboration can bring great benefits there are also downsides, particularly associated with the resources required to manage the relationship, the slower speed of decisions and the potential for disagreement between boards.

Where they have complementary skills and share similar costs, mergers between foundations could help them reach more beneficiaries, share learning between areas of grant-making and have more efficient processes. Like operational charities, grant-makers should also consider merger where there is a compelling case.

## How can mergers between charities be encouraged?

Identifying the lack of mergers in the charitable sector might provoke debate but is unlikely to do much to encourage more activity.

Given the cultural, personal and structural barriers to charities merging, it might be tempting to say that charities should be forced to merge. However, forcing charities is not the answer. It is wrong and would not work. It is vitally important that charities have the right to determine their own future, and without the broad support of staff and trustees would be doomed to failure. The impetus for merger has to come from within.[51]

An important obstacle to considering merger is the availability of information. During NPC's research we are often struck by how little is known about other charities doing similar work, particularly by trustees.[52] This makes it hard to spot opportunities for collaboration and identify potential mergers.

Providing better information and analysis can help trustees and managers to make better decisions. NPC's research can be useful in this process but there are also other potential sources of information. Box 6 contains details of two recent initiatives to facilitate mergers. This includes a 'merge-maker' where charities can register their interest in joining forces with another organisation.

Alongside providing information, trustees and managers need an incentive and clear argument to consider merger. Interpreting a charity's purpose beyond the limits of the organisation itself could provide this.

**Box 6: Recent support to facilitate mergers**

***HM Government's third sector modernisation fund[53]***

In response to the recession, HM Government has created a £16.5m 'modernisation fund' to help charities and social enterprises restructure and become 'more resilient and efficient'. The fund will be used to purchase the 'specialist legal, financial and employment advice and guidance that organisations require to merger or collaborate.'[54] Financial support is available in two forms:

- Bursaries of £1,000 for organisations to pay for initial advice, and grants of up to £10,000 to help pay costs involved in moving towards collaboration or merger.
- Interest-free loans of between £30,000 and £500,000 for organisations with existing plans for mergers and collaboration or other activities.

***Futurebuilders' merge-maker***

Futurebuilders is the government-backed investment fund established to support charities to take a greater role in public service delivery. In April 2009 it launched a merge-maker, an online match-making service for third sector organisations considering working together through merger, collaboration, or forming consortia.[55] Any charity or social enterprise can register its interest and have its details posted on the website.

## Charitable objects

Charities exist to support vulnerable people. The mission and purpose of charities is to improve people's lives in some way—perhaps through education, promoting good health or just being there at a time of crisis.

Charitable objects have meaning beyond the individual organisation to which they are attached. For example, finding a cure for cancer is a charitable object that is shared by an entire sub-sector of charities.

If charities exist to promote charitable objects then they should be able to think outside the limits of their organisation. Another way of saying this is that charities should prioritise their objects above the narrower interests of their organisation.[56]

Sometimes what best serves a charitable object may conflict with what is in the obvious interest of the charity itself. The possible mergers discussed above may be examples of this. Although we can argue that each merger could be in the best interest of beneficiaries, in each case it will result in one charity passing its assets and services to another.

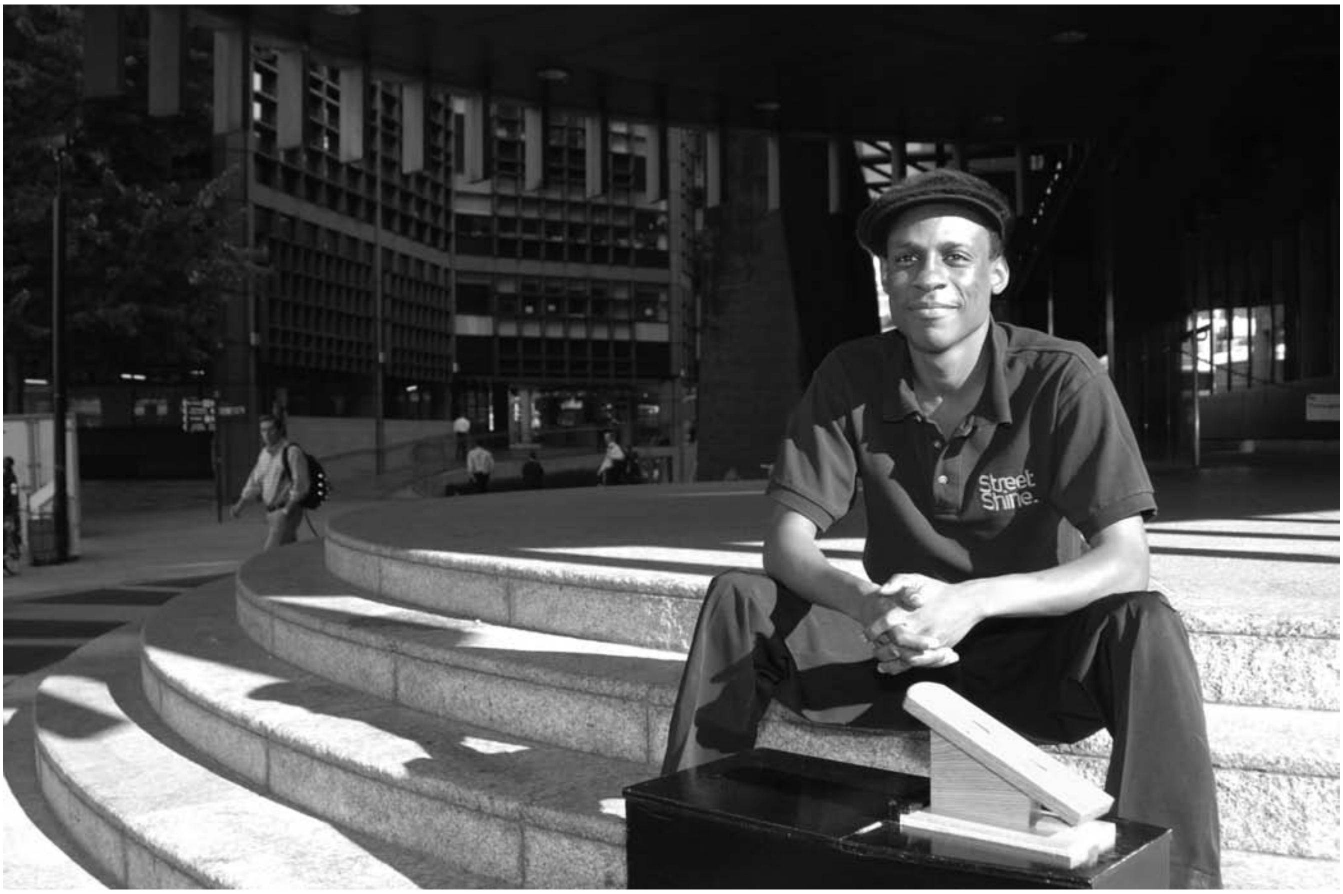
## Trustees' duty

The job of trustees of charities is to 'accept ultimate responsibility for directing the affairs of a charity, and ensuring that it is solvent, well-run, and delivering the charitable outcomes for the benefit of the public for which it has been set up'.[57]

This definition takes a narrow focus on the organisation. But if charities exist to fulfil the needs of their beneficiaries then trustees should be encouraged to take a wider view.

Acting in pursuit of a charitable objective encourages trustees to seek out what is best for their beneficiaries and not what is best for their charity. Explicitly putting mission above organisational interests should result in a greater openness to merger and collaboration.

NPC believes that it should be part of trustees' responsibility to regularly consider the possibility of merger or collaboration. Without this, trustees may be failing in their duty to provide the best possible outcome for the vulnerable people that their charities exist to serve.




Photograph supplied by Thames_Reach

# Conclusion

The central argument of this paper is that merger is an important way of improving the charitable sector, and its role in enhancing people's lives.

## Mergers can create value

Mergers can make charities more effective. Although measuring and articulating the value created is not easy, the examples discussed in Chapter 2 show that mergers can produce real benefits for the lives of the vulnerable people that charities seek to help.

However, mergers are not a straightforward solution and are not appropriate in many cases. Mergers can even destroy value if not done well.

## There are too few mergers

The evidence suggests that mergers between charities are uncommon, particularly among larger organisations. A recent Charity Commission survey showed that just 3% of charities said they had considered merging.

Most mergers seem to occur in response to crisis—usually financial problems or the loss of key management—rather than an explicit desire to further charitable purposes. This is because the culture, structure of control, and personal passion invested in charities tends to favour the status quo.

## A tool to improve services

Charities exist to serve the most vulnerable in society, eg, the homeless, young people excluded from school and isolated older people. Mergers can be a tool to reorganise and improve these services.

Undertaking a merger should be a strategic decision based on furthering the charitable purpose. Forefront in the minds of trustees and chief executives of charities should be the question 'how can we achieve the most for the people we seek to help?'

## Better information

The impetus for merger has to come from the trustees and managers of charities. An important obstacle to considering merger is the availability of information. During NPC's research we are often struck by how little charities know about other charities doing similar work. This makes it hard to spot opportunities for collaboration and identify potential mergers.

Providing better information and analysis can help trustees and managers to make better decisions.

## A new duty for trustees

If merger is a means of increasing the ability of charities to help people then it should be part of a trustee's role to consider whether merger is a way to better fulfil charitable purpose. This requires trustees and managers to think beyond the limits of their organisation: the question is not works best for the charity, it is what works best for the community in need.

## The economic context

Just as has been the case after all the major economic shocks of the last two centuries, the world that emerges after the end of the current financial crisis will look different to the previous one. Charities too must ready themselves for this new environment.

In this context, mergers should be part of the toolkit that will shape the third sector of the future. Facing up to the realities of social and economic change, they are part of the innovation that the charitable sector must deliver over the coming years.

# Acknowledgements

**We are grateful to the following individuals who we met during the research process. We also contacted all of the charities named in this report.**

**To discuss the conclusions of this report, or to comment on any of its content, visit NPC's blog at http://newphilanthropycapital.blogspot.com.**

| | | |
|---|---|---|
| Jon | Aisbitt | Man Group plc |
| Linda | Ashby | Charity Commission |
| Richard | Black | Charity Commission |
| Lindsey | Bromwell | Office for the Third Sector |
| Helen | Carr | Charity Commission |
| Iain | Cathcart | Bates, Wells and Braithwaite |
| Rosie | Chapman | Charity Commission |
| Gareth | Coles | NCVO |
| Wes | Cuell | NSPCC |
| Andrew | Denney | ACEVO |
| Seb | Elsworth | ACEVO |
| Dominic | Evers | NSPCC |
| Paul | Farmer | Mind |
| Jenny | Harrow | Cass Business School |
| Ralph | Michell | ACEVO |
| Sakthi | Suriyaprakasam | NCVO |
| Jeremy | Swain | Thames Reach |
| Jan | Tallis | School-Home Support |

# References and notes


1 www.helptheaged.org.uk/en-gb/Campaigns/News/news_merger_010409.htm

2 www.telegraph.co.uk/news/newstopics/mandrake/4550029/Prince-Charles-voices-severe-regret-as-he-resigns-from-charity.html

3 For example see Cabinet Office Strategy Unit (2002) *Private action, public benefit: providing flexibility for charities to evolve and merge.*

4 Charity Commission economic survey of charities March 2009. Sample size 1,003. Research report prepared by Carol Goldstone Associates. See www.charity-commission.gov.uk/Library/common/downturn.pdf.

5 The Charity Commission Register of Mergers was established principally to provide a means of directing legacies that have been left to charities which have been removed from the central register of charities due to a merger. It does not provide a comprehensive list of mergers. See www.charity-commission.gov.uk/enhancingcharities/rom.asp

6 The research evaluated merger fillings in the states of Massachussetts, Florida, Arizona and North Carolina in the eleven years between 1996 and 2006. See Cortez, A., Foster, W. and Smith Milway, K. (2009) *Nonprofit M&A: More than a tool for tough times.* The Bridgespan Group.

7 Cortez, A., Foster, W. and Smith Milway, K. (2009) *Nonprofit M&A: More than a tool for tough times.* The Bridgespan Group, p.3

8 Cools, K., Gell, J., Kengelback, J. and Roos, A. (2007) *The Brave New World of M&A: How to create value from mergers and acquisitions.* Boston Consulting Group.

9 Andrade, G., Mitchell, M. and Stafford, E. (2001) *New evidence and perspectives on mergers. Journal of Economic Perspectives* 15(2) 103-120.

10 Mather, B (2000) *Merging interests.* The Baring Foundation. Appendix A: Case study – the HIV voluntary sector.

11 Burnby, D. (2007) *Anatomy of a merger: the Cumbria experience. How the county's five district CVS became one.* NACVA.

12 Interestingly, changes to the structure of government can work in two ways. Following devolution in Scotland and Wales a number of charities operating across the borders undertook a 'de-merger', creating a separate charity in both provinces.

13 For a short description of the Cancer Research UK merger see www.guardian.co.uk/society/2001/dec/11/medicalscience.research.

14 This is consistent with the finding in Cortez, A., Foster, W. and Smith Milway, K. (2009) *Nonprofit M&A: More than a tool for tough times.* The Bridgespan Group, p.4

15 Charity Commission (2003) *RS 4a Collaborative working and mergers.* www.charity-commission.gov.uk/publications/rs4a.asp

16 Charity Commission (2003) *RS 4a Collaborative working and mergers.*

17 NCVO suggest that the average direct cost of a merger between two charities is £20,000 to £30,000 in consultancy and legal fees, although it recognised that in many cases it is likely to be considerably more. See Office of the Third Sector (2009) *Real help for communities: volunteers, charities and social enterprises.* www.cabinetoffice.gov.uk/third_sector/real_help_for_communities.aspx, p.21.

18 Thames Reach Bondway board papers from 1 September 2003. With thanks to Jeremy Swain, chief executive of Thames Reach.

19 For a review of the literature see Cripps, A. and Carter, M. (2006) *Merger: A brief guide to the literature for voluntary and community sector organisations.* London Housing Foundation.

20 For more on  the role and responsibility of the Office of Fair Trading see www.oft.gov.uk.

21 Office of Fair Trading (2001) *Completed merger between the Imperial Cancer Research Fund and the Cancer Research Campaign No. ME/1074/02.* www.oft.gov.uk/advice_and_resources/resource_base/Mergers_home/mergers_fta/mergers_fta_advice/imperial_cancer_research_fund

22 Mather, B (2000) *Merging interests.* The Baring Foundation, p.5

23 Harrow, J. and Bogdanova, M. (2006) *Sink or SWiM: Towards a twenty first century community sector.* BASSAC. www.bassac.org.uk/dms/documents/8/sink-or-swim-towards-a-21st-century-community-sector

24 Jenny Harrow, Cass Business School, personal communication, 10 March 2009.

25 Vernis, A et al (2006) *Non-profit organizations: challenges and collaboration.*

26 Charity Commission (2003) *RS 4a Collaborative working and mergers.* www.charity-commission.gov.uk/publications/rs4a.asp

27 Andrade, G., Mitchell, M. and Stafford, E. (2001) *New evidence and perspectives on mergers,* Journal of Economic Perspectives 15(2), 103-120

28 Cools, K., Gell, J., Kengelback, J. and Roos, A. (2007) *The Brave New World of M&A: How to create value from mergers and acquisitions.* Boston Consulting Group

29 Cools, K., Gell, J., Kengelback, J. and Roos, A. (2007) *The Brave New World of M&A: How to create value from mergers and acquisitions.* Boston Consulting Group, p.16

30 Some of these reasons are adapted from Cairns, B., Harris, M. and Hutchison, R. (2003) *Key findings on voluntary sector mergers.* Centre for Voluntary Action Research.

31 Kane, D., Clark, J., Lesniewski, S., Wilton, J., Pratten, B. and Wilding, K (2009) *NCVO Almanac 2009.*

32 Kane, D., Clark, J., Lesniewski, S., Wilton, J., Pratten, B. and Wilding, K (2009) *NCVO Almanac 2009.*

33 See www.thirdsector.co.uk/News/Article/815661/Collaboration-umbrellas-together/

34 A survey of public attitudes to the Charity Commission MORI poll February 1999

35 Lovallo, D., Viguerie, P., Uhlaner, R. and Horn, J. (2007) *Deals without delusions.* Harvard Business Review 1 December 2007, http://hbr.harvardbusiness.org/2007/12/deals-without-delusions/ar/1.

36 Recent events show that ailing companies may also pursue a defensive approach to merger. For example, when the American investment bank Bear Stearns was facing insolvency, advisers working for its chief executive, Alan Schwartz, phoned his opposite number in JP Morgan Chase to plea to be rescued. An account of this event is given in Tett, G. (2009) *Fool's Gold.* Little, Brown. p.252.

37 McLaughlin, T.A. (1998) *Non-profit mergers and alliances: a strategic planning guide.*

38 We recognise that these charities may already have considered merging and decided, for good reasons, not to proceed. As these discussions are usually held privately, NPC may not be aware of them.

39 This is the subject of NPC's report *Read on: literacy skills of young people* (2007). Available from www.philanthropycapital.org

40 The National Literacy Trust campaigns to raise the profile of literacy and supports professionals but does not specifically represent the charities working in the area. For more details see www.literacytrust.org.uk

41 See NPC's report *The hidden assassin: cancer in the UK* (2004).

42 For a short description of the Cancer Research UK merger see www.guardian.co.uk/society/2001/dec/11/medicalscience.research.

43 See NPC's report *Short changed: financial exclusion* (2008).

44 According to Credit Action, total consumer credit lending to individuals at the end of March 2009 was £232bn. See www.creditaction.org.uk/debt-statistics.html.

45 CCCS works also helps its clients with Individual Voluntary Arrangements, a legal and government-approved method of resolving debt that avoids bankruptcy.

46 See NPC's report *Don't Mind me: adults with mental health problems* (2006).

47 See www.sane.org.uk

48 Samaritans annual report, due to be published in July 2009, shows that in 2008 from a total of around 5 million telephone call attempts, 7.7% of got the engaged tone. This rose from 6.1% in 2008. 68% of the calls that get the engaged tone are between 2am and 8am. If current trends continue Samaritans expect around 418,000 engaged calls in 2009 and 463,000 engaged calls in 2010.

49 www.lankellychase.org.uk

50 Unwin, J. (2004) *The grant-making tango: issues for funders.* Chapter 11.

51 This is a clear finding by grant-makers that have sought to force charities to merge in the past. Experience has shown that 'playing God' does not work.

52 Research in early 2009 found that trustees did not have a clear understanding of how the work of their charity related to others. See NPC's report *Board matters: trusteeship in the UK* (2009)

53 See www.modernisationfund.org.uk

54 HM Government (2009) *Real help for communities: volunteers, charities and social enterprises,* p.21

55 See www.futurebuilders-england.org.uk/what-we-offer/services/merge%11maker

56 In its policy statement on merger, collaborative working and due diligence (October 2007), the Charity Commission states that 'trustees should carry out regular reviews to explore their strategic position and possible partnership arrangements.' See www.charity-commission.gov.uk/enhancingcharities/merge.asp

57 Charity Commission (2008) *The essential trustee: what you need to know.* CC3, p.6.

# Other publications

## Published research

Research reports are focused on specific areas of charitable activity in the UK unless otherwise stated.

Community

- **Breaking the cycle:** *Charities working with people in prison and on release (2009)*
- **Short changed:** *Financial exclusion (2008)*
- **Lost property:** *Tackling homelessness in the UK (2008)*
- **Hard knock life:** *Violence against women (2008)*
- **When I'm 65:** *Ageing in 21st century Britain (2008)*
- **Not seen and not heard:** *Child abuse (2007)*
- **A long way to go:** *Young refugees and asylum seekers in the UK (2007)*
- **Home truths:** *Adult refugees and asylum seekers (2006)*
- **Inside and out:** *People in prison and life after release (2005)*
- **Grey matters:** *Growing older in deprived areas (2004)*
- **Side by side:** *Young people in divided communities (2004)*
- **Local action changing lives:** *Community organisations tackling poverty and social exclusion (2004)*
- **Charity begins at home:** *Domestic violence (2003)*

Education

- **Inspiring Scotland:** *14:19 Fund (2008)*
- **After the bell:** *Out of school hours activities for children and young people (2007)*
- **Lean on me:** *Mentoring for young people at risk (2007)*
- **Misspent youth:** *The costs of truancy and exclusion (2007)*
- **Read on:** *Literacy skills of young people (2007)*
- **On your marks:** *Young people in education (2006)*
- **What next?:** *Careers education and guidance for young people (2005)*
- **School's out?:** *Truancy and exclusion (2005)*
- **Making sense of SEN:** *Special educational needs (2004)*

Health and disability

- **Heads up:** *Mental health of children and young people (2008)*
- **A life less ordinary:** *People with autism (2007)*
- **What price an ordinary life?:** *Financial costs and benefits of supporting disabled children and their families (2007)*
- **Don't mind me:** *Adults with mental health problems (2006)*
- **Valuing short lives:** *Children with terminal conditions (2005)*
- **Ordinary lives:** *Disabled children and their families (2005)*
- **Out of the shadows:** *HIV/AIDS in Burundi, Democratic Republic of Congo and Rwanda (2005)*
- **The hidden assassin:** *Cancer in the UK (2004)*
- **Caring about dying:** *Palliative care and support for the terminally ill (2004)*
- **Rhetoric to action:** *HIV/AIDS in South Africa (2003)*

Environment

- **Green philanthropy:** *Funding charity solutions to environment problems (2007)*

International

- **Philanthropists without borders:** *Supporting charities in developing countries (2008)*
- **Going global:** *A review of international development funding by UK trusts and foundations (2007)*

Cross-cutting research

- **Critical masses:** *Social campaigning (2008)*
- **Striking a chord:** *Using music to change lives (2006)*

Improving the charity sector

- **Board matters:** *A review of charity trusteeship in the UK (2009)*
- **How are you getting on?:** *Charities and funders on communicating results (2009)*
- **Granting success:** *Lessons from funders and charities (2009)*
- **Valuing potential:** *An SROI analysis on Columba 1400 (2008)*
- **More advice needed:** *The role of wealth advisors in offering philanthropy services to high-net-worth clients (2008)*
- **Turning the tables:** *Putting English charities in control of reporting (2008)*
- **Turning the tables:** *Putting Scottish charities in control of reporting (2008)*
- **On the bright side:** *Developing a questionnaire for charities to measure children's well-being (2008)*
- **Advice needed:** *The opportunities and challenges in philanthropy for ultra high net worth individuals and family offices (2007)*
- **Trading for the future:** *A five-year review of the work of the Execution Charitable Trust and New Philanthropy Capital (2007)*
- **Funding success:** *NPC's approach to analysing charities (2005)*
- **Surer Funding:** *Improving government funding of the voluntary sector (2004, published by acevo)*
- **Full cost recovery:** *A guide and toolkit on cost allocation (2004, published by NPC and acevo)*
- **Just the ticket:** *Understanding charity fundraising events (2003)*
- **Funding our future II:** *A manual to understand and allocate costs (2002, published by acevo)*

NPC's research reports and summaries are available to download free from www.philanthropycapital.org

New
**Philanthropy**
Capital

New Philanthropy Capital (NPC) is a charity that maximises the impact of donors and charities—it does this through independent research, tools for charities and advice for donors. Its research guides donors on how best to support causes such as cancer, education and mental health. As well as highlighting the areas of greatest need, NPC identifies charities that could use donations to best effect.

Using this research it advises clients and their trusted advisors, and helps them think through issues such as:

- Where is my support most needed, and what results could it achieve?
- Which organisation could make the best use of my money?
- What is the best way to support these organisations?



**New Philanthropy Capital**

3 Downstream 1 London Bridge London SE1 9BG

t: +44 (0)20 7785 6300 f: +44 (0)20 7785 6301

w: www.philanthropycapital.org e: info@philanthropycapital.org

A company limited by guarantee. Registered in England and Wales No. 4244715.
Registered charity number 1091450.


ISBN 978-0-9551694-9-6

Designed and printed by DG3 Europe. (17544)
DG3 is an ISO14001 certified company, which uses green energy from 100% renewable sources. This document is printed on 80% recycled paper that is certified by the Forestry Stewardship Council (FSC).