TAKEOVER MERGER: ST MUNGO'S

The merger between St Mungo Community Housing Association (St Mungo's) and Broadway Homelessness and Support (Broadway) in 2014 was described by the two organisations as a 'merger of Broadway *into* St Mungo's'. Technically this could be described as a 'takeover' (Broadway transferred assets and staff to become part of St Mungo's). However, both sides positioned it as an 'equitable merger'. Howard Sinclair, Broadway's chief executive, became the new combined chief executive of the organisation and the appointment of the new board was based on the proportionate size of the two charities (eight trustees for St Mungo's; four for Broadway). For a time, the charity was referred to as St Mungo's Broadway before reverting to St Mungo's. In the four years since the launch of the new charity, there has been significant impact and some efficiency savings resulting from the merger.

A takeover with beneficiaries at its heart

Continuity of service provision, culture change and expanded service provision were the main drivers for the merger

A desire for continuity of service provision, culture change and expanded service provision were the main drivers for the merger. Talks began in 2014. While neither organisation was driven by acute financial crisis or an urgent need for cost saving, both were aware of operating in an environment of increasingly smaller margins, raising financial pressure and increased demand for their services.

'It's about the range of people involved. Third sector mergers are very person driven.'

Howard Sinclair, CEO of St Mungo's and previous CEO of Broadway

For Broadway, the smaller of the two organisations, financial stability played a part in the decision. Other than the freehold of its headquarters, Broadway's balance sheet, although debt-free, was thin, offering limited opportunity for expansion or investment. Merging with a larger, more financially robust organisation—with reserves in the region of £20m plus a property portfolio of £100m—offered Broadway the opportunity to safeguard its services. Broadway was also attracted to the prospect of securing its method of providing services and expanding its influence with St Mungo's, especially given St Mungo's solid reputation.

For St Mungo's, there was interest from key trustees in bringing some of the working practices that had been developed in Broadway into St Mungo's to catalyse change and help drive the future direction of St Mungo's. Broadway also came with £15m of contracts. For both, a wish to improve and expand the services available to their target beneficiaries—people who are homeless—acted as a driver. The two chief executives saw an opportunity to create a larger organisation with the capacity to act at scale.

The mantra behind the merger was:

'Whatever we decide in these meetings, we don't want people sleeping on the Embankment!'

Howard Sinclair, CEO of St Mungo's and previous CEO of Broadway

The imminent departure of one of the chief executives triggered serious talks and the merger process

In 2013 Charles Fraser, the chief executive of St Mungo's since 1994, decided to leave. Both Broadway and St Mungo's took this opportunity to pursue the possibility of merging.

Charles reached out to Howard Sinclair, then chief executive of Broadway, for an initial informal scoping meeting. Following a fruitful discussion, each CEO then presented the opportunity to their boards to consider. The process progressed quickly, and in December 2014, five months after the initial meeting, the merger was announced as agreed and was completed the following April. While all staff, service delivery and day-to-day operations were transferred to St Mungo’s, the few remaining commitments that could not be separated out eg, long term office lease arrangements were retained in Broadway as a wholly owned subsidiary of St Mungo’s. Once these commitments are complete, the Broadway charity will unregister.

The merger has brought multiple benefits

The merger was not without issues, but it did help to maximise impact and efficiencies in charitable purpose and activities; people and culture; and finance and operations.

Purpose remained unchanged, but the merger offered a chance to review services

The purpose of both charities was largely unchanged through the merger, to provide the best possible support for their service users. Most of the activities of both Broadway and St Mungo’s were continued except for a small number of specialist services that St Mungo’s had delivered in the health sector. The merger gave a chance to review which activities were too far outside of the core expertise of the combined organisation.

The main ambition of the new merged St Mungo’s was to expand its reach while maintaining and improving the quality of its interventions. Growth was achieved with an overall increase in income of 21% between 2014 and 2017, an increase that the charity claims would not have been possible without the merger. This happened despite a highly challenging external environment, including significant government cuts in homelessness related support. Estimating the total number of people reached can be very difficult for large housing charities however indications are that this growth has translated into supporting more people in need. At the point of merging in 2014 St Mungo’s outreach teams engaged with 3,600[1] rough sleepers. **By 2017 this has increased by 37% to 5,662[2], reaching over 2,000 more individuals.**

At the same time as increasing its scale, St Mungo’s reports being able to maintain and enhance the quality of the support that it provides to service users. The sharing of best practice between the organisations has allowed a tightening up of service procedures.

Operations and processes have been improved

New operational processes were put in place streamlining and enhancing staff communication. This included Cascade, a new HR database information system, and Solid Foundations, an intensive behaviour change project, designed to improve processes across the company. As of June 2017, an internal annual review of compliance concluded there had been clear progress in this area and that because of the merger, St Mungo's now ‘complies in all material respects'.

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[1] St Mungo's accounts 2014

[2] St Mungo’s accounts 2017

People and culture presented challenges which, ultimately, have been overcome

St Mungo’s and Broadway began the merger with very different cultures and ways of working—which can often prevent mergers from occurring. One of the first goals of executive team was to bring these cultures together and create a new culture that was greater than the sum of its parts.

This is an ongoing process and has not been without problems. It has taken longer than was first expected with staff feeling uncomfortable or threatened by the changes supported by active and widespread union membership.

‘It is very hard to join two organisations together. Instead, you have to create something new, and a new way of working.’

Howard Sinclair, CEO of St Mungo’s and previous CEO of Broadway

The greatest challenge in relation to culture and people faced during the merger was a seven-day strike. It was supported by 95.9% of ballot voters and involved almost half of St Mungo’s staff. Unite said at the time that the strike was triggered by a lack of communication and lower levels of pay for new staff. In preparation for the strike, St Mungo's took steps to limit the impact on service users, including shifting around available staff to prioritise support for essential services and maintaining channels of communication with key stakeholders.

Following on from the strike staff relations have improved, with a 2017 staff survey showing an Employee Engagement Index of 78%. St Mungo's also now maintains clear lines of communication with Unite. More generally there has been a clear improvement in staff morale, as shown by recent analysis from the employment consultancy Campbell Tickell. Its report found an increase in staff feeling valued from 41% in 2015 to 54% in 2017, as well as a 42% point increase (22 to 63%) in staff feeling positive about safety issues. The overall average was a remarkable 20 percentage point increase across 28 categories with the report concluding that there had been a ‘demonstrable shift towards a culture of compliance and professionalism'.

Finance and operations: costs

No strict budget was set for the merger itself, but St Mungo’s calculates its costs to be approximately £349,000. This does not include the hidden costs of staff spending time and energy on making the merger work, but covers £189,000 on legal, staff support, governance and other activities directly related to the merger, as well as £160,000 for the final contractual payment to the outgoing chief executive. Following on from the initial setup costs there have been more significant projects including a total restructuring of the IT system. These changes were to create greater consistency of process and easier communication between different parts of the organisation. St Mungo’s is satisfied that the financial cost of the merger, at 0.5% of the combined 2014 income, was relatively low.

Finance and operations: income growth

By merging the two charities, the increased value in terms of income levels at the time of merger was 21% for the larger partner. The addition of the £15m organisation of Broadway was a significant increase on top of the £54m sized St Mungo’s, so the total income at the time of the merger was £69m. This is a much higher level of value created than in a typical private sector deal where shareholders and founders tend to receive a pay-out which can be very costly and reduce the value created. Thanks to an ability to bid for bigger contracts by 2016/2017 this income increased to £87m, a 26% increase.

Finance and operations: cost savings

The merger also achieved significant cost savings through economies of scale. In part through combining the two operational teams into a single team and location, St Mungo's was able to save £1.6m in central staffing and management costs in the first two years, representing about 1% of costs per year. Keeping operational costs lower has allowed St Mungo’s to remain competitive in the current commissioning market, as councils (one of the main contractors for services) face a massive upswing in demand while suffering from a decrease in resources for housing services due to austerity. This leads to a natural pressure towards cheaper services making it essential that St Mungo’s has been able to keep it operational costs down while maintaining the quality of its frontline services

Lessons from the merger

The Broadway and St Mungo’s merger has been a significant success, although the charity acknowledges that it faced teething problems along the way, and a greater level of change was needed than anticipated. It took longer than first expected to achieve a consistent culture and structure throughout the organisation. Some of the initial challenges could have been better identified in the build up to the merger if there had been more time built in the process for due diligence. Ensuring consistent communication prior to merger across both St Mungo’s and Broadway would have also made a difference. The time and effort needed from many staff members, alongside their day job, was also underestimated. In hindsight, more time would have put aside for the process to plan for new ways of working before the merger (though there may have been a risk of losing momentum if the merger had been spread over a long period of time).

Open recruitment

At the point of the merger, both St Mungo's and Broadway had a full management team. Apart from the position of the chief executive, no decision was made before the merger about which roles would be filled by whom. The new St Mungo's chief executive undertook competitive recruitment for all roles. With a formal, transparent interview processes to identify the best candidate for the job within both pools of staff.

This method carried with it the risk of friction. To compensate for this St Mungo’s focused on creating a highly transparent system where participants were aware of how they were being assessed as well as making sure people were aware of timelines. It is important to make the process as speedy as practical to minimise opportunities for conflict.

In the early stages of the open recruitment, it was key to think not only about how the process took place but also how it appeared to take place. The leadership were aware that at this stage St Mungo's and Broadway were still very different cultures with very different identities. Due to this recruitment panels had a balanced mix of former Broadway and premerger St Mungo's staff on the panels.

The open process was successful with a resulting strong management team and no substantial opposition at management level

Communication and commitment

The key enabler of the merger was the commitment of the people involved, particularly the two chief executives and key members of the board. The two chief executives and two trustee chairs were explicit from the start about how the merger would work. This allowed for a speedy and transparent exchange of information between the charities letting them assess the potential concerns that could arise from the merger and keep things well managed. This led to a quick formal merging process taking place over a five-month period.

Looking forward

The St Mungo’s Broadway merger was a practical way to enhance an organisation’s scale and financial stability, while maintaining quality of services and impact on beneficiaries. St Mungo’s is now at the point where the last remaining challenges of the merger are being ironed out, there is a proactive common culture, and the organisation is in a stable financial position for more growth.

‘We now run more services better and safer together, and reach more people, and that’s what matters.’

Howard Sinclair, CEO of St Mungo’s and previous CEO of Broadway

St Mungo’s is now starting to take advantage of this position to consider new ways of working. It is interested in expanding its impact measurement to help spread best practice both within St Mungo's and across the sector.

NPC’s 2018 research into mergers

Mergers as a means of stretching scarce charitable resources are an attractive prospect. Mergers offer strategic potential—reaching more beneficiaries; increasing the range of services offered to beneficiaries; greater heft in policy influencing and contract negotiations. Logic suggests cost savings would be achieved. Despite this, mergers are not as common as might be expected. So why are charities not liking them, or doing them? Much has been published on how to merge, ranging from the legal to the practical, and many sources list expected benefits of merger. However, there is a gap: objective analysis of the benefits and costs of mergers, and a balanced assessment of in which situations a merger (or similar) may be beneficial or otherwise.

To help fill this gap, NPC has been commissioned by a group of philanthropists to research and write an independent report on mergers and other efficiency savings. This builds upon NPC’s well-read report on mergers in 2009.

NPC’s research included a literature review, 30+ interviews with sector experts, charities and funders, sector analysis and five in-depth and themed case studies on mergers. NPC will publish a series of publications in various formats, including a report, webpages outlining case studies and blogs to share key findings from the research.

We hope to follow this research with further work to tackle the barriers to more mergers taking place.