POTENTIAL FOR MERGER: GRANT-MAKING ORGANISATIONS

Grant-makers can better achieve their mission through supporting grantees to merge, or by merging themselves

Grant-makers can use mergers to further their mission in two ways:

1. Enabling their current and potential grantees to explore and engage in mergers by providing encouragement, funding and funding commitments.
2. By grant-makers merging. In the same way that mergers between suitable operational charities can bring benefits, there are also benefits to the sector when grant-making bodies merge.

We will look at these two scenarios separately in this paper, exploring the landscape, opportunities and considerations for each.

'A... more sustained source of funding in this area—probably of a few million pounds—could make a significant difference...if merger activity could be doubled from today's low level this would save thousands of jobs and protect a few hundred million pounds of services annually.'

Richard Litchfield, Chief Executive, Eastside Primetimers[1]

Enabling the merger process for grantees

The benefits of grantee mergers for funders

For operational charities, our report, illustrates the benefits. At an organisational level, they may be better able to focus on service delivery and helping their beneficiaries, rather than constantly struggling to survive day to day. They could also develop a bigger voice and platform by coming together, attracting more attention to their cause and delivering better cohesion on campaigning work. These are all things that funders may be looking for in their grantees.

Financially, once the costs of the merger itself is addressed, there are cost-saving opportunities for charities beyond the merger process, eg having a consolidated board, a single chief executive, integrated communications and reduced back office costs. Such efficiencies are encouraged by funders—but are they willing to pay?

Many funders take an interest in favoured causes, and here they could play a role in bringing charities within sectors together to address the structural problems found in sectors. Mergers could play an ambitious role in bringing such changes about.

Funding and incentives for grantees

Formal consolidation mergers are expensive. Costs may be incurred on legal fees, due diligence, HR advice and consultancy fees, restructuring and redundancy, rebranding, systems, integrated communications and office arrangements. Expenditure is generally anticipated to be in the region of £100,000-£400,000 depending on the complexity of the merger and internal capacity to deal with the process. [2] This can act as a barrier for many charities, especially when we consider that 73.2% charities in the UK have a total annual income of £100,000 or less[3].

Some large organisations may be able to draw on reserves if they anticipate the future savings to be sufficient—Age Concern UK and Help the Aged did this for their consolidation into Age UK—but this is not an option for many charities.[4] Even charities considering less expensive consolidation models are unlikely to have high enough annual income to support them, let along sufficient reserves available to fund the process. External help is essential, and funders have a critical role to play in enabling mergers to go ahead. Funders therefore need to be both more actively engaged with the possibilities of mergers, and explicit about the support they could offer.

Options for funders

Funders can offer support to their grantees by:

- encouraging grantees to question if a merger would be beneficial (and with whom);
- providing financial support for the merger process itself;
- committing to support their grantee up to, during and after the merger;
- being flexible in funding criteria that might discourage mergers.

Crucially, funders should be explicit in stating the support they could offer, so that charities do not need to second guess their funders' preferences.

Encouraging grantees to question the status quo is a role funders could and should play

Many charities, especially charities that are struggling to make ends meet, are not always awake to the benefits mergers could bring. They may be stuck in survival mode, keen to retain autonomy and independence, have leadership teams that are emotionally connected to the organisation as it stands, or they might just not be sure if and where to start.

By encouraging grantees to be open to the idea of a merger, and to keep an eye out for opportunities, funders can empower their grantees to look beyond business-as-usual, and question whether collaboration models may be an effective way of achieving their charitable objectives. Funders can do this in various ways—from asking applicants whether they have considered collaboration opportunities, to having a frank discussion about future plans, and indicating support for a merger or collaboration.

Supporting the process will enable grantees to go for it

Funders could provide financial support for grantees exploring merger opportunities or contribute towards the costs of the process if their grantees decide to press ahead. For charities, the buoyancy this support could provide is invaluable, and a key enabling factor in helping negotiations to progress. In the case of the takeover of Counsel and Care by Independent Age, Counsel and Care approached all their existing funders to help them save their services and support the transition. This raised more than £300,000 in two months and was key to successful negotiations. [5]

We should include a note of caution here, that funders need to be mindful that mergers are, by nature, complex and uncertain. If embarking on this area, funders should adjust their expectations, so they do not become disillusioned with the process if it is subject to challenges, delays and setbacks[6], and be honest about their appetite for risk.

Commitment to long-term support gives charities confidence to explore risky options

Many charities do not even reach the negotiating table. We know from our research that some charities are discounted as potential partners because their financial position is too insecure, and indeed the Coram charity group is clear that they will only merge with charities that are going concerns. Some charities that need to merge to survive may not be viable prospective partners and could be at risk of going under.

For grant-makers that will not consider funding the merger process itself, acting as a sort of guarantor for grantees may be an agreeable alternative. By vocalising a commitment to support their grantee up to and beyond the merger, they can boost the prospective position of their grantee, and provide a sense of financial security that can give reassurance to a prospective partner. In the 2017 merger between Catch22 and Community Links, Community Links' high levels of funder support and commitment helped to strengthen the mergers' appeal, when it otherwise may have seemed too risky proposition for Catch22.

Funders only funding small charities put off charities that might grow through merger

Many funders prefer to fund small charities, and this support should not be underestimated. Small charities dominate the UK charity sector by number of organisations, but they account for only a very small proportion of the total money raised. Many funders recognise this and, as a result, tend to favour smaller organisations over larger ones.

However, the desire to support small charities should not create a barrier to collaboration. Grant-makers with arbitrary limits to the size of organisation they will fund (for example, only funding charities with revenue under £100,000) risk inadvertently putting their grantees off discussions around collaboration opportunities, especially where a merger may ultimately take them over the funding revenue threshold. Funders should therefore be alert to the risk of artificially keeping their grantees small and reflect on whether they wish to introduce more flexibility to their criteria as an incentive for collaboration and growth. This could provide an opportunity for funders to remain connected with charities they presumably like for more than just their small size and enable them to meaningfully participate in their grantees' organisational development.

Funder behaviour is often cited as an obstacle to merger

Worries about future funder behaviour was a major barrier to merger reported by charities. Would the merged entity be disqualified for being too large? Would funders, previously funding two organisations, reduce their financial commitment to the merged entity? Might competing corporate funders walk away if they see a rival funder nearby?

Funders need to understand that these perceptions, sometimes real, inhibit charities from merging. Supporting charities to merge may require funders to be flexible.

Esmee Fairbairn Foundation supports the early stages of merger thinking

Since its dedicated fund was established in 2012, the Esmee Fairbairn Foundation has provided £328,000 to organisations in the early stages of merger thinking, feasibility checks and discussions. Applicants need to be at, or close to, the preliminary stage of discussions with an identified potential merger partner (or partners). The maximum amount they will fund for merger planning costs is £15,000. The Foundation does not aim to influence the final decision, and the funds are not to be used for the merger process.

This is a valuable sector resource to help charities answer the question of whether they should come together, without committing those two charities to a decision. It explicitly encourages charities to explore collaboration opportunities, and implicitly demonstrates that they consider mergers to deliver value to the sector under the right conditions.

Funder mergers

Like operational charities, grant-making organisations could realise many benefits through mergers. They may gain additional skills and experience, achieve bigger voice and reach, and simultaneously reduce the cost of making grants. This may benefit the people and communities that the grant-maker hopes to help, increase the funds available to grantees, and reduce the fundraising costs of charities seeking support. They may also reduce confusion among grantees.

Mergers between UK grant-makers are rare, but not unheard of, and some well-known funders such as Impetus PEF, Lankelly Chase and the Masonic Charitable Foundation are all the result of mergers. In this section we will explore the background to this type of merger, as well as the potential efficiencies and challenges.

Background to this type of merger

Mergers between grant-makers differ to those between operational charities, partly because grant-makers often hold more resources. Mergers between grant-makers tend to be more strategic and driven by the ability to create wider change, rather than by achieving financial security or growth. As a result, grant-maker mergers tend to be less time pressured and can therefore accommodate more considered thought and planning.

The benefits of grant-maker mergers

There are many benefits to be realised by grant-makers considering greater collaboration with their peers. Like operational charities, they include: back-office savings; opportunities to add new skills and services rather than develop them organically; and chances to review strategies. The process may be expensive, but like operational charities, grant-makers may find that their long-term cost savings more than justify the initial outlay.

From a wider landscape perspective, grant-maker mergers could reduce the burden on operational charities of making funding applications—each charity need only make one. They could also enable funders to advocate for the issues that matter to them with greater power and influence. Many grant-makers are now seeking to use more than just their finances to drive change and having greater size and clout can help them with this.

Mergers can also provide a valuable pause in business-as-usual, and allow organisations to reflect, learn, review processes, and instigate changes and improvements. In the case of the Masonic Charitable Foundation, the merger prompted staff to really engage with questions of how to maximise organisational processes and culture, and ultimately drive greater impact for their beneficiaries. It also proved to be the perfect time to have a strategy rethink and plan out the new organisational structure and merger logistics. This was beneficial for managing the organisational transformation successfully and supporting better work in future.

Alignment of interests

The Masonic Charitable Foundation merger is unique as it comprised of four separate organisations merging, all of which had similar missions, beneficiaries, and views on how funding should best be disseminated. Other funders that have merged have perhaps not had such close similarities. However, that is not to say relationships are cold.

In the case of the merger between The Chase Charity and the Lankelly Foundation to form Lankelly Chase in 2005, the two organisations had already been working together for many years. In the case of the joining of Impetus and the Private Equity Foundation to form Impetus PEF, the two funders shared similar strategic goals and mindsets, and sought to drive greater impact in partnership. Having strategic alignment and shared objectives is therefore very important.

The Masonic Charitable Foundation: how four benevolent funds decided to merge

The Masonic Charitable Foundation was formed in April 2016 following a merger between four national benevolent funds—The Freemasons' Grand Charity, the Royal Masonic Trust for Girls and Boys, the Masonic Samaritan Fund and the Royal Masonic Benevolent Institution. Two of the four institutions had all been operating since the early 18th century, and they all shared the aim of supporting Freemasons and their families.

The merger that resulted in the Masonic Charitable Foundation was a strategic one, not driven by a need for cost savings. Primarily, the decision was driven by a collective desire to make the Masonic Charitable Foundation a more efficient and effective organisation for its beneficiaries. The four constituent organisations had worked closely for many years and carefully planned out the merger before it was finalised.

Practical implications

All four organisations had been based in Freemasons' Hall in London, but their offices were partitioned off from each other. Post-merger, the offices were unified and redesigned, and a new brand was created, allowing the teams to work more collaboratively and communicate more effectively.

Although financial sums have not been disclosed, it is accepted that the merger was expensive. A small number of senior leadership team members were made redundant, including some CEOs from the four charities. External consultants were engaged, and legal costs were high. However, unlike many charity mergers, cost savings were not a driving force, and the newly formed foundation anticipates that in the long-term the initial outlay will be recouped through substantial back-office savings.

Benefits for applicants

Before the merger, each of the four organisations had a slightly different funding application process and eligibility criteria which could be frustrating and confusing to current and potential grantees. The merger enabled the four organisations to consolidate their approach, creating a single team, set of eligibility criteria, website and set of contact details—all helpful for applicants. The benefits are reflected in a significant increase in enquiries and improved processing of applications.

Position of the new Foundation

The newly formed Foundation provides support to Freemasons and their families to relieve a financial, health or family need as well as supporting charities, research bodies and international humanitarian appeals. At the time of the merger, the four constituent charities had collective assets of over £400m, and on this basis it is expected that the merger will catapult the new Foundation to the 25th largest funder on the Charity Commission register.[7]

Barriers to funder mergers

Grant-makers can be fiercely independent and, whilst this can be a key strength in enabling them to find their niche, it can also be an obstacle to collaborative working. Although there are lots of examples of funders working together informally (such as grants officers meeting up to share experiences) or co-funding projects, most individual trustee boards wish to retain a final say over grant decisions; formal collaboration or consolidation arrangements are rare.

A general lack of openness and transparency among the funder community, and the closed nature of many funders—especially family foundations—can also be a significant barrier. Family foundations are likely to fund causes which have a personal connection, and wish to retain control over the foundation’s assets, and they are therefore unlikely to entertain a merger with non-familial groups. That is not to say that there are no possibilities for mergers, however, and family foundations like any other group should be alert to the possibilities and benefits that merging could bring for the people they ultimately exist to serve.

As with all types of mergers, culture clash and poor staff buy-in is a risk, and funders will need to establish positive connections between staff as well as encourage a new culture for the emergent organisation. Looking to the example of the Masonic Charitable Foundation may help with this. Although the four Masonic charities were in a unique position as most of the staff of the four organisations already knew each other, the senior leadership team still invested a great deal of time in creating an inclusive environment, in which everyone felt consulted, represented and listened to. The organisation also supported team bonding activities, taking a positive approach which was adopted by most of their staff.

Looking forward

Where there are complementary skills and shared goals, mergers between grant-makers should be considered as a mechanism for increasing beneficiary reach, improving shared learning, realising more efficient processes, and achieving greater voice and influence on the issues that matter to them.

Looking at the evidence we have gathered, the research suggests that mergers between funders can be successful if planned carefully and carried out with ample time to listen and respond to the requests and needs of all stakeholders. We encourage all grant-makers to talk more openly about possible synergies in their work and, where appropriate, explore the option of working in partnership. If successful, this can then lead on to discussions around a formal merger which could benefit the grant-maker, their grantees, and ultimately their beneficiaries.

Th Masonic Charitable Foundation is hoping to build its presence and voice in the sector and is actively seeking to widen connections by attending conferences and networking events. In the future, it hopes to offer support for grantees in all parts of their life-cycle, and ultimately increase impact for the Freemasons it aims to help. Without the strategic merger, grantees would likely have had to access this support from multiple organisations—now they have a clear single point of contact. Anecdotally, staff have noticed they have had an increased number of enquiries since the merger. They attribute this to having a stronger brand, which has a wider presence and reach.

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.

[1] http://guest.thirdsector.co.uk/2015/02/27/mergers-are-worth-funding-even-if-they-dont-work-out/

[2] http://www.thirdsector.co.uk/analysis-charity-mergers-finding-shared-vision/governance/article/1155693?_ga=2.44013858.649634179.1504272774-723241539.1501515479

[3] https://www.gov.uk/government/publications/charity-register-statistics/recent-charity-register-statistics-charity-commission

[4] http://www.thirdsector.co.uk/analysis-charity-mergers-finding-shared-vision/governance/article/1155693?_ga=2.44013858.649634179.1504272774-723241539.1501515479

[5] http://www.thirdsector.co.uk/analysis-charity-mergers-finding-shared-vision/governance/article/1155693?_ga=2.44013858.649634179.1504272774-723241539.1501515479

[6] http://guest.thirdsector.co.uk/2015/02/27/mergers-are-worth-funding-even-if-they-dont-work-out/

[7] https://www.civilsociety.co.uk/news/merged-masonic-charity-will-be-one-of-25-largest-by-assets.html