LET'S TALK MISSION THROUGH MERGERS: A DISCUSSION FOR TRUSTEES

NPC briefing, October 2018

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On 18th June 2018, NPC and The Clothworkers' Company held a seminar to discuss how mergers can help charities achieve more impact for their beneficiaries. This briefing paper summarises advice from the speakers and outlines key points of participants' discussion.

The seminar was chaired by **Richard Litchfield,** Chief Executive of Eastside Primetimers and the panellists and topics of discussion were:

- **Iona Joy**, Head of Charities at NPC and author of NPC's report *Let's talk mission and merger* spoke about the benefits of mergers and different merger models.
- **Lynne Berry**, Chair of Breast Cancer Now spoke about the experience leading a merger to create the largest breast cancer research charity in the UK.
- **Arvinda Gohil**, CEO of Community Links shared her experience of overseeing Community Link's merger with Catch 22.

Roundtable discussions and a question and answer session followed the panellists' presentations, allowing delegates to discuss the benefits and barriers to mergers.

Why mergers?

Recent scandals and ensuing bad press have left the charity sector under pressure to prove its worth. Duplication, wasted resources, and 'too many charities' are often cited as reasons to question the efficacy of the sector—and an argument for more mergers. However, our panellists argued that it's time to change the narrative around mergers and highlight them as a tool for achieving more for impact.

When done well, collective action can be a way to increase the sector's impact, and better help beneficiaries. Charities frequently collaborate at a project level and understand that causes can be better served by working together, but rarely extend this further. Mergers are too often viewed as a consequence of failure, and the concept has become tainted. But partnerships can help charities do more together than they can alone—and so mergers can play an important role in increasing a charity's impact.

At this event panellists and attendees discussed questions around mergers such as:

- Why should trustees care about mergers?
- What are the potential benefits of mergers?

- What different kinds of mergers are there?
- What are the barriers to mergers?
- What would encourage more charities to merge?

This paper looks at these questions in turn and lays out panellists' and attendees' thoughts on these issues.

Why should trustees care about mergers?

'It's important to remember what's behind all this. Questions like "should we merge?" are the wrong place to start. The question is: what is your mission?'

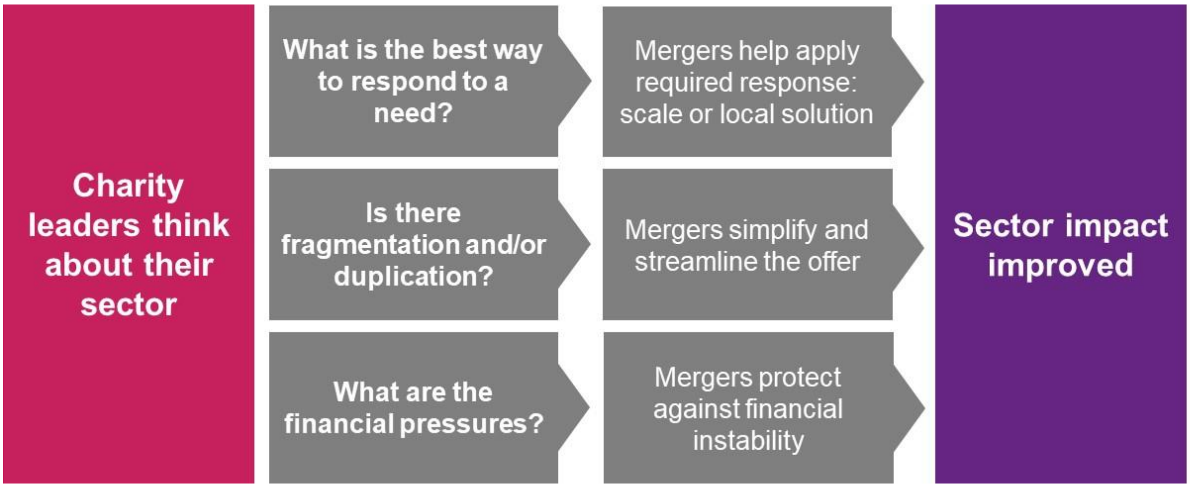
Arvinda Gohil, Chief Executive, Community Links

The results of an NPC survey published in *Charities taking charge* show that 34% of charity leaders had discussed merging with another organisation at board level in the last 12 months.[1] Many in the sector argue this number is far too low. Trustees are often seen as too resistant to the idea of mergers, and don't know about the range of models available. This can mean that when charities are under pressure, trustees start to think about a merger too late—and do not arrive at a good solution.

The seminar began with Chair Richard Litchfield's call to broaden the discussion from 'mission and mergers', to include a trustee's role in relation to mergers. This role is outlined clearly in the new charity code of governance which states:

1.5.2 *'Trustees should consider the benefits and risks of partnership working, merger or dissolution if other organisations are fulfilling similar charitable purposes more effectively and/or if the charity's viability is uncertain.'*

Figure 1: How leaders can think about their sector



In reality, this commitment is not always fulfilled. Research by NPC showed that trustees are often seen by those working in the sector as blocking mergers[2]. Trustees are often deeply invested in their organisation, the good work it does, and the staff who work to improve lives. This commitment is admirable but should not come at the expense of the cause they are trying to tackle. By focussing too much on the survival of their own organisation, trustees can miss the bigger picture, and opportunities to have a greater impact collectively. Figure 1 above offers

1 Murray, P et al (2017) "*Charities taking charge*", NPC

2 Joy, I et al (2018) "*Let's talk mission and merger*", NPC

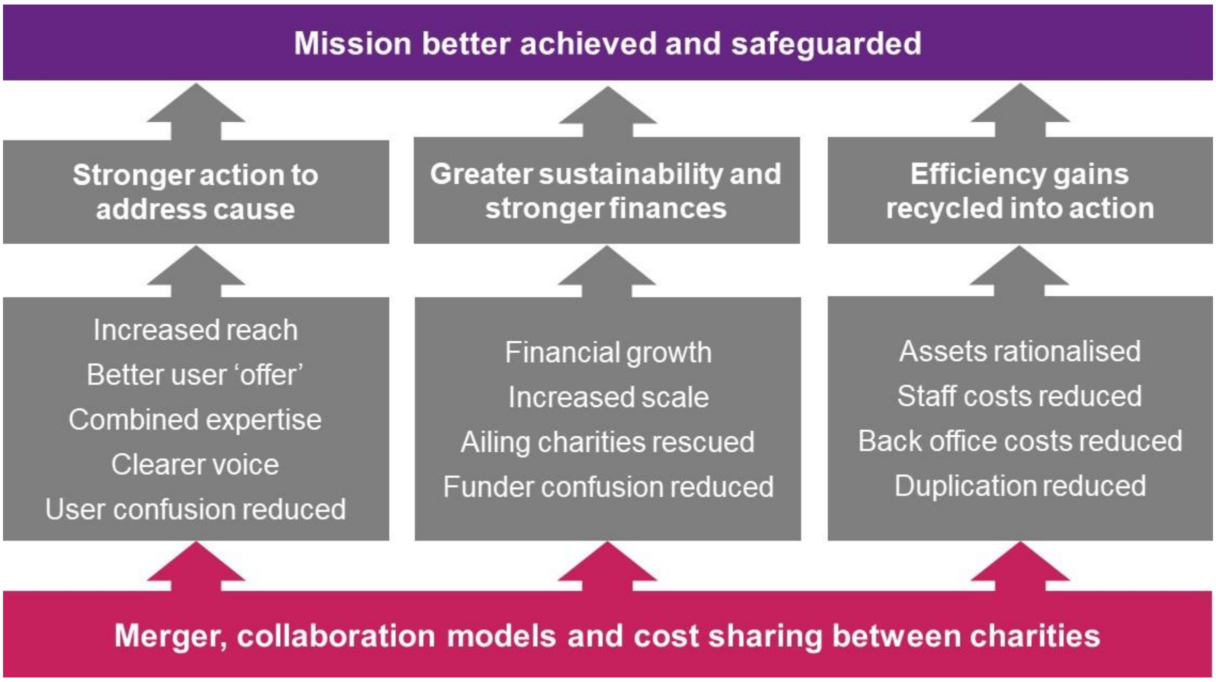
a framework for how trustees should be thinking about the problems in the charity sector, and how a merger can potentially offer a solution.

The panellists argued that trustees should act in accordance with their responsibility under the Charity Governance Code and think about their charitable objectives above organisational integrity or survival. This means regularly and seriously looking at the options for a merger. Trustees who do not seriously consider merging their charity with another to better serve their cause are failing in their duties and failing people who need them.

What are the potential benefits of mergers?

The starting point for any discussion of a merger must be the impact on the beneficiary. A merger could maintain this impact by securing an organisation's future or resolving financial difficulties. Alternatively, a merger might increase impact by allowing services to scale up or making these services more relevant and targeted to the beneficiary. The diagram above lays out different benefits mergers can achieve.

Figure 2: The benefits of mergers



'A merger must increase (a charity's) impact. If it doesn't, don't do it.'

Lynne Berry, Chair, Breast Cancer Now

Mergers are only a good opportunity financially and strategically depending on a charity's situation and conditions. Some organisations are much better suited to mergers such as:

- Charities with departments which clearly duplicate what others are doing either in policy or activities.
- Charities not tied to local communities, such as those that provide general information on a topic.
- Grant making organisations.

The justifications for most mergers are cost-savings and survival, but there are many opportunities for more mergers for strategic gain. If two smaller organisations come together, it can give them a louder, clearer voice in advocating for their beneficiaries (see the case study on Breast Cancer Now, page 5). It can also let them bid for bigger contracts—though the panel highlighted that this brings more public scrutiny.

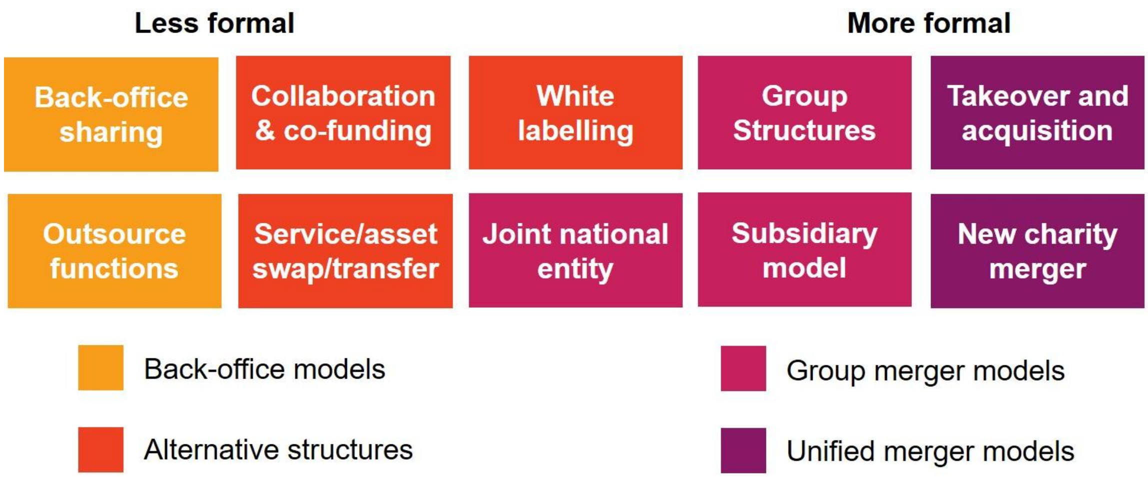
There are other strategic benefits to mergers. For the larger partner in takeovers, it is often a cost-effective way to acquire a new service, therefore improving its 'user offer'. If a large partner brings on board a community rooted organisation, it can give them a closer connection to a local area which might have been lacking previously. This can help them more effectively include and represent their beneficiaries' voices.

The panellists also had a note of caution for those looking at a merger for purely financial reasons: a merger will not always and automatically result in savings. Although many decry the inefficiencies of the charity sector, in some parts resources are scarce, which forces charities to already run as efficiently as possible—reducing the opportunity for substantial savings. For some of these organisations, introducing new technology could be a better route to cost savings than mergers. It is important for leaders considering a merger to look closely at their organisation, and their sector more widely to decide what strategy is right for them.

Not all mergers look the same: What different models are there?

Mergers come in many different shapes and sizes. A typical perception of a merger is of a large organisation absorbing a smaller one, which subsequently loses its distinct identity. This type of merger—acquisition—is one option for charities, but not the only one. Figure 3 looks at a range of different options, from less to more formal. The language of 'mergers' and the stigma around it can be a barrier in and of itself. It is therefore important to explore all the different options available with an open mind, and not necessarily assume that a formal merger is the only partnership model appropriate.

Figure 3: Merger and sharing models



As figure 3 shows, there are a variety of smaller steps that organisations can take to collaborate short of a formal merger. For some organisations it may be helpful to outsource some functions. For others, collaboration and co-funding may be helpful (see the case study on Community Links and Catch 22, page 6).

The appropriate model will depend on the charities involved. The panellists emphasised that starting with your mission and working from there should help guide organisations to what their merger should look like.

Regardless of the type, the mergers that are most successful are where both sides are committed to a shared vision, and where they agree that together they can be more than the sum of their parts. The panel warned that unsuccessful mergers often resulted from 'forced marriages' where one or both sides came to the partnership as a last resort and lacked this shared vision.

Case study: Breast Cancer Now

In November 2014, *Breakthrough Breast Cancer* and *Breast Cancer Campaign* announced that they were going to merge to form *Breast Cancer Now.* The two charities were the two largest funders of breast cancer research in the UK.

They were doing very similar things which led to confusion among the public and policy makers. What had become known as the ‘Pink Fog’ meant that neither organisation was as effective as they could have been when conveying messages to the media, policy makers and pharmaceutical companies. Scientific research has become global and more complex, working across disciplines and in specialist centres. It needs large commitments of millions of pounds over long periods of time to reach real breakthroughs—and raising these sums was increasingly problematic for either organisation.

There had been a number of discussions about merging these two organisations over the previous 20 years, but the time had not been right, for a number of reasons. By 2014 a gap analysis done by the charities laid the groundwork for further discussions. The process of merging was inevitably a complicated one, but a focus on the mission of the organisations helped to keep it moving.

Our panellists were keen to stress that it was important for both charities to undertake a comprehensive analysis of the opportunities, synergies and challenges to create a successful merger like this. There are many unknowns at the beginning of the discussion and the process of a merger often throws up unexpected issues internally as well as externally.

The merger was completed in 2015, and 3 years on *Breast Cancer Now* has retained its supporters and has a stronger, united and expert voice. It has also meant money is available for promising new research which could not previously be funded.

What are the barriers to mergers?

‘A merger should be like a marriage, but too often it’s like a divorce.’

Seminar attendee

Mergers can have huge benefits to beneficiaries, however they can be very difficult to achieve. The process requires a close look at both organisations and can throw up many unexpected barriers along the way. Even before the merge begins, gaining consensus around if, how, when and who to merge with can be incredibly difficult. Here are the main barriers discussed by our attendees and panellists:

Leadership

As mentioned previously, trustees are often seen as a barrier to mergers. In her presentation, Iona Joy drew the distinction between ‘active’ and ‘passive’ blocking. Active blocking is represented by trustees who openly try and resist a merger. Passive blocking—when trustees are not encouraging exploration of new ways to better serve beneficiaries—is more common.

Culture

The prospect of a merger can put off many staff members and beneficiaries. The uncertainty involved, and the possibility of staff cuts can be an unpleasant prospect. To mitigate this, trustees have to show good leadership. Once a decision has been made, the leaders in an organisation have a responsibility to communicate the value of it to their staff and beneficiaries. Some resistance to change may always be inevitable but can be reduced by an effectively communicated vision.

Cost

Bringing together two organisations is resource intensive. It is important to remember that collaboration can only take an organisation so far towards cost savings, and that collaboration takes up resources on its own even if the staff structure is only minimally impacted. Trustees should consider this trade-off when beginning a merger process.

Drawn out process

The complexity of a merger can be another barrier. In the worst cases, organisations can spend so long working out every detail that they end up distracted from their mission. In every merger there is a trade-off to make—of time committed in the short-term for a better long-term impact. Trustees should be clear about this going into it, and make sure the mission remains the focus, and due diligence does not become a battle.

Case study: Community Links and Catch 22

In 2016 Arvinda Gohil became CEO of Community Links. After doing a thorough review of its accounts she realised the financial and operational picture was not good. The board had a choice: either close down and leave their beneficiaries without support or seek a partner.

Community Links began to look for organisations that might be suitable. Through a process of desk research and a series of conversations, the candidates were narrowed down to a handful, and then one. One problem in finding a partner was that the catalyst for the merger was Community Links' vulnerable finances. Not an ideal negotiating position to start from.

The entire process from start to end took just over a year and had many obstacles along the way. Around 20% of staff cuts were necessary and certain services which were not justifiable had to be removed.

Despite this, Community Links is now in a sustainable position. Its finances are healthy, and it can offer a stable level of support to its beneficiaries which can continue into the future. Community Links is smaller now, but now has the financial strength to grow out. Community Links did not lose its name and gained stability. Catch 22 gained a partner with strong ties to a local community. The two organisations now have shared services, and work alongside each other.

What can we do to encourage mergers?

'This is not a new debate. People have been saying the sector is too inefficient, too diffuse and needs to be tidied up since 1869.'

Lynne Berry, Chair, Breast Cancer Now

Lynne Berry began this discussion by pointing out that people have always claimed that there are 'too many charities'. The focus should not be on having more mergers for the sake of it. Instead, people should be encouraged to recognise when mergers can provide an opportunity to help their beneficiaries.

A change in mindset

Many of the examples of mergers discussed by panellists and attendees came about because of necessity. This is also the most common view of a merger: a struggling organisation searching for a partner to ensure its survival.

The panellists argued this view is what leads to mergers to be seen as a sign of 'failure'. If there was a cultural shift, and mergers regularly happened when an organisation was doing well financially, this could help them to frame them as strategic rather than desperate. For this to happen, trustees must be willing to consider mergers at all times—good and bad—whenever they have the chance to increase impact.

Considering a merger when an organisation is strong financially also gives that organisation far more say over the circumstances of the partnership. It can prioritise what elements it thinks are important and retain more of its original identity if it wants.

Practical advice

The topic of mergers is very sensitive, and it can be hard to know where to start. One attendee asked for practical tips on how to start conversations around mergers. The panellists encouraged attendees to think of mergers as a strategic option that is always on the table. There is a lot of information online about charities’ finances and strategy which is a good starting point for anyone thinking about a merger. Then, trustees should feel comfortable going for informal coffees with potential partners to see how similar the organisations are.

Group discussion

Almost all attendees were from organisations that were either actively considering mergers or open to the idea. Many of the points raised by the speakers were also mirrored in the group discussions. At the start of the group discussion the panel posed four questions to attendees:

- Is your organisation thinking about mergers?
- How do you think a merger could help your organisation’s beneficiaries?
- What do you think would encourage more charities to consider mergers?
- What do you see as some of the barriers to charities merging?

Attendees spoke mostly about the final two of these questions.

While considering what might encourage more mergers, one attendee reflected that it was ironic that bodies like NCVO and ACEVO were always encouraging the charity sector to pursue more mergers, without partnering more substantively themselves. This demonstrates how hard it is to translate support for mergers into practical change.

Three out of the four tables discussed the barriers to mergers. A recurring theme from their discussion was that of ‘ego’. Tables discussed the issue of how to get people to look past their personal investment in an organisation and concerns about losing their role, and instead focus on how to achieve its mission. This is easily done once an organisation is in a desperate position, but by this point it is often too late and some damage has already been done. The harder issue is how to convince leaders to leave aside ego when their organisation is doing well.

Final thoughts

It is a difficult time for charities. The financial pressures and public scrutiny raise questions around mission more than ever before. However, charities have a chance to turn these difficulties into an opportunity. In many ways the charity sector is perfectly positioned for more mergers. Driven by clear mission statements, full of passionate staff and with experience of collaborating to achieve practical aims, charities already have the groundwork necessary to make a merger a success.

It is easy to focus on the challenges associated with a merger: the time and resources involved, the difficulties of getting staff buy-in, the risk of losing your organisational identity. Despite this, panellists urged attendees to think of the positives that a merger can bring about. By keeping your mission at the forefront of any discussion, a merger can allow you to do more for your beneficiaries than you ever could alone.

Trustees have a vital role to play in keeping this perspective, being open to the idea of a merger and exploring opportunities for one which aligns to your mission. Finally, they have a responsibility to communicate this vision to their staff and bring them along the journey with them.

Further reading

You can find the presentation slides here.

Please also see links to some useful publications by NPC and Eastside Primetimers:

Let’s talk mission and merger (publication)

Let’s talk mission and merger (blog)

‘Talking about merging isn’t itself a risk’ (blog)

There’s more than one way to merge a charity: Part 1 (blog)

There’s more than one way to merge a charity: Part 2 (blog)

Good Merger Guide (publication)

Good merger index (publication)

NPC runs a series of trusteeship seminars supported and hosted by The Clothworkers’ Company. Summary briefings from these sessions are available to download from our website www.thinkNPC.org, where you can also find information about future seminars.

If you are interested in hearing more about how the charities can increase their impact, NPC is running its annual conference on 10 October, NPC Ignites. Early bird tickets are on sale now.

The Clothworkers’ Company also holds the annual Charity Governance Awards—in partnership with NPC, Prospectus and Reach—which has special categories for small charities to celebrate outstanding governance.

TRANSFORMING THE CHARITY SECTOR

NPC is a charity think tank and consultancy. Over the past 15 years we have worked with charities, funders, philanthropists and others, supporting them to deliver the greatest possible impact for the causes and beneficiaries they exist to serve.

NPC occupies a unique position at the nexus between charities and funders. We are driven by the values and mission of the charity sector, to which we bring the rigour, clarity and analysis needed to better achieve the outcomes we all seek. We also share the motivations and passion of funders, to which we bring our expertise, experience and track record of success.

Increasing the impact of charities: NPC exists to make charities and social enterprises more successful in achieving their missions. Through rigorous analysis, practical advice and innovative thinking, we make charities' money and energy go further, and help them to achieve the greatest impact.

Increasing the impact of funders: NPC's role is to make funders more successful too. We share the passion funders have for helping charities and changing people's lives. We understand their motivations and their objectives, and we know that giving is more rewarding if it achieves the greatest impact it can.

Strengthening the partnership between charities and funders: NPC's mission is also to bring the two sides of the funding equation together, improving understanding and enhancing their combined impact. We can help funders and those they fund to connect and transform the way they work together to achieve their vision.

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