

How can we make the most of a merger and the major change that this represents? What can be learned from the experience of others?

In 2013, The Charity Finance Group, Institute of Fundraising and PwC suggested that as many as 20 per cent of charities were considering merger. In the two years since the VCSCChange Charity Merger Survey was published, which I co-authored with Mark Atkinson, we have seen some prominent and successful mergers, but fewer than anticipated.

At its best a merger can bring about a new and stronger organisation, better services for beneficiaries, opportunities for funders, operational efficiencies, increased income generation and greater capacity.

We canvassed opinion from 39 organisations, of all sizes (turnover from under £100,000 to over £100m). One merger CEO told us: “In the current economic environment, doing nothing is not an option”. Another urged us all to “look at the option of merger in times of strength and from a position of strength”. However there is a commonly held view that merger (or acquisition as the case may be) is mainly a way out of trouble and that this trouble is usually financial. More than half described their merger as a “takeover” as opposed to a merger saying that they had little or no choice.

Here are some of the top tips shared by those who have already been through a merger:

1. Plan early

Don't wait until it's too late. Keep options as open as possible. Identify and court a number of partners. Expect the whole process to last around two to three years, with much of the real graft taking place in the integration phase. Set goals and objectives which can be monitored. Stick to them.

2. Be true to yourself

One of the first things to check is whether your mutual charitable objects are compatible. If not, then you'll need to address them. This could be a good first point at which to seek legal advice. If you are considering merger it is always a good idea to seek more than one prospective suitor.

3. Consider structure

Don't take it for granted that the larger charity should swallow the smaller one. There are many options and choices about what sort of structure you adopt. It may

be that the most sensible thing to do is to fold both organisations and start another one. It will save you much time to consult legal advisers, and not everyone does, at the outset on such matters.

4. Be sensitive to cultural fit

Some 66 per cent of respondents agreed that cultural fit was important or very important for a merger to be successful. We heard about mergers in which there was a great mission fit, but which had been abandoned or had become difficult because of a mismatch between cultures. 69 per cent of respondents reported significant levels of conflict. Issues can clearly escalate and become major stumbling blocks if not identified and addressed.

5. Let the CEO lead the way

Leadership and governance – who’s driving and who’s navigating? CEOs appeared to be taking a more active role than trustees or chairs. In nearly half of the organisations surveyed (45 per cent) it was the CEO and in 18 per cent it was the chair of trustees.

6. Count the full costs

Only 17 per cent of the respondents reported receiving external funding to support the cost of merger. The larger and more financially stable charities appeared to be more likely to receive a merger grant.

The full costs were underestimated by many. There are the costs of advice and legal process, the distraction of senior staff from other activities, the time cost of undertaking due diligence, the opportunity costs (the activities which were sacrificed along the way), and the emotional and human costs (many will find the process unsettling). For three-quarters of respondents the cost was estimated as being under £50,000. But this did not reflect all costs and indicated that further research may be needed.

It’s also important to build a number of different scenarios and also to work out what the benefits could be in terms of income and fundraising.

7. Recruit a project manager

A number of people recommended appointing a merger manager to focus on activities such as due diligence, communications, integration planning, reporting and managing steering group meetings and the like. Only 22 per cent of respondents recruited a project management to oversee the merger. The organisations which appointed a project manager experienced lower levels of stress and conflict and better overall outcomes.

8. Build the right board with the right skills

Decisions and choices of leadership, both executive and non-executive, need to be made at an early point in the process.

“A firm line wasn’t taken. Having to work with an over-large combined trustee board was a nightmare.”

“Choose your chair and chief executive quickly otherwise a decision-making vacuum can form and the distraction of the merger will continue for longer than it should.” Review the skills base of your board and consider recruiting someone with prior experience of merger.

9. Implementation: invest in detailed and meticulous planning

Most were so focused on getting to the altar that they had not invested the same time and resources in integration plans after the merger.

10. Keep a reverse gear

At a certain point you will be committed and there will be no way back. Keep the reverse gear in mind for as long as you can and act without delay if it isn't working. Establish the basis and consequences for 'pulling out' as part of the early agreements. “Think about it very carefully and don't be afraid to back out if it is not working, and if your original organisation is going to lose more than it gains.”

In conclusion

We encountered a high level of confidence, with 66 per cent either agreeing or strongly agreeing that the intended benefits had or could be achieved via the process of merger. Some 75 per cent of respondents said they would do it again. This confidence in achieving the aims describes a positive view of charity merger. It was heartening that, whereas finances certainly played a big part, the most popular driver in mergers was still to improve services to beneficiaries. It's only right that the last words should go to a charity CEO who responded to our survey, who reminded us all that: “Merger is just the start, not the end, of the process.”

(This piece has been adapted from an article published by the Governance Magazine in 2014, written by Alistair Lomax)

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September 2015