TO MERGE OR NOT TO MERGE?

Why are there so few mergers in the charity sector? Ought there to be more? **TANIA MASON** explores the issue.

Charity mergers are rare. The annual Good Merger Index, set to be published this month by Eastside Primetimers, will show that in 2016/17 there were 70 charity mergers in England and Wales involving 142 charities – representing less than 0.01 per cent of the total number of charities.

Yet plenty of people believe that more mergers would be a good thing for the charity sector. British Asian Trust chief executive Richard Hawkes, writing in the last issue of this magazine, argued passionately that we cannot continue to allow an unlimited number of new charities to be set up without reducing the number at the other end. "Competition is good," he wrote, "but only in a changing environment, with more charities merging or ceasing to exist when they are no longer required."

Turkeys don't vote for Christmas
DAVID FIELDING

The new Charity Governance Code recommends that trustees of both larger and smaller charities consider "partnership working, merger or dissolution if other similar organisations are fulfilling similar charitable purposes more effectively".

And Lord Lupton, a member of the Lords select committee that produced last year's report on the charity sector, told the 2017 Trustee Exchange conference that charities had a "strong moral duty" to consider mergers.

However, the report from the committee that Lord Lupton sat on, did not go quite as far. Despite hearing about several examples of successful mergers, it also received a large number of submissions from people concerned that mergers can be unsustainable, can lead to mission drift and can take organisations further away from their beneficiaries. The Welsh Council for Voluntary Action noted that mergers can be "delicate and complex to navigate", while the Esmée Fairbairn Foundation cited liability issues, poor financial knowledge and high costs as further barriers. There can also be legal and technical hurdles to clear, particularly around pension or lease liabilities and the potential loss of legacies. In light of this, the Lords committee recommended that the government bring forward a Bill to address these barriers. The government response to the report suggests this is a low priority.

In reality, more mergers tend to be driven by the financial distress of one or more of the parties, rather than a proactive, strategic move to increase impact. Julian Stanley, the chief executive of Education Support Partnership, suggests that one reason for this could be because there is no 'safe place' where charities can go to explore the potential of a merger, without showing their hand and potentially compromising themselves. Stanley, who oversaw several internal mergers in recent years to modernise ESP's antiquated structure, proposes that the sector needs a confidential brokerage service to find merger partners (see p10).

There is another, more visceral barrier to merger – the inevitable result that there can only ever be one CEO, one senior leadership team, one chair, one trustee board.

"Turkeys don't vote for Christmas," says charity sector headhunter David Fielding from Attenti. He recalls being hired to assess the skills and effectiveness of two chief executives in a merger, but when one began to suspect that the other was the preferred candidate, he began smearing his counterpart and eventually persuaded his board to abandon the merger. "The redundancy terms were not very good and he was not convinced that he would easily land another job," Fielding says.

It is quite common for housing associations to effect mergers when one of the chief executives is retiring, he adds; it's much more straightforward when nobody has to lose their job.

"If you're able to offer a decent financial settlement that makes it much easier to move someone on," he says. "But in the charity sector we have to justify every penny, and rightly so."

In another case Attenti advised on, some of the trustees were remunerated and when it became clear that they would not all transition to the new board, they lobbied heavily against the proposed merger, rather than lose their incomes.

"I am generally in favour of charities being able to pay their trustees if they feel it's the right thing for the organisation, or helps to improve board diversity," says Fielding. "But in some cases it is clear that individual personal desires have taken priority over the needs of the organisation and its service users. It's absolutely depressing."

He recommends appointing an independent chair early on in any merger process. "I'm a real fan of a new, independent chair who comes to it with fresh eyes. Mergers should be a wonderful opportunity to diversify your board. But research tells us the sector is woeful at this.

"There simply aren't enough examples of successful mergers in the sector, not enough showcasing of the benefits."

Richard Litchfield, chief executive of Eastside Primetimers, adds: "Many charity managers and trustees need to reconsider the purpose of their organisations from the ground up, and whether going it alone is still always the best way to serve their beneficiaries. And new founders also need to think twice about starting a brand new charity when something similar or with complementary services probably already exists." G&L

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