

Key Findings on Voluntary Sector Mergers

By Ben Cairns, Margaret Harris and Romaine Hutchison

Edition One, September 2003

These Key Findings are based on our own research, including: action research projects and research consultancy with voluntary organisations considering or implementing merger (including Terrence Higgins Trust, Crisis and Homeless Link); Study Days for voluntary organisations considering or planning merger; reviews of domestic and international research and practitioner literature on voluntary sector mergers. To keep these Key Findings easy to read we have only referenced sources which we have directly quoted from. Under [further resources](#) you will find details of all the references we have drawn on.

Introduction

These Key Findings describe and discuss a range of issues connected with a merger between two or more voluntary organisations. We hope that they will be useful to those considering merger, or at the early stages of negotiating a merger, or just generally interested in the subject. Mergers amongst UK voluntary organisations are increasing, and there is a growing need to enter into a merger fully aware of the issues involved, the potential benefits and pitfalls and the help available.

This document is presented under the following headings:

1. Definitions of merger.
2. The context for voluntary sector mergers
3. Forms of organisational collaboration
4. Drivers to merge,
5. Stages in the process of merger.
6. Critical success factors for merger,
7. 'Deal breakers'
8. Possible benefits of merger.
9. Key questions
10. Further Definitions
11. Further resources (includes access details of all articles referred to in these Key Findings)

1. Definitions of merger

From our own research we would suggest that a merger can be considered to involve the coming together of two or more organisations, all their assets and liabilities, to form one new body, with a single name, legal form, governing body and mission. This may or may not be achieved by one organisation 'acquiring' another, or by one or all organisations 'dissolving' (known as the 'double dissolution' model). In some instances, that name may be the name of one of the merging charities, as for example when the Terrence Higgins Trust and regional HIV / AIDS agencies decided to use the Terrence Higgins Trust name. Others may choose to combine their names, as in the case of Thames Reach and Bondway to form Thames Reach Bondway. A third, and much less common, option is to a completely new name. The new agency may choose to develop a new constitution or adopt that of one of the merger partners.

It should be noted that the definition of a voluntary sector merger is a contested area. Other examples can be found in Section 10, Further Definitions.

2. The context for merger

Mergers in recent history

Mergers and take-overs have been a feature of life in the business sector for many years. These have generally been undertaken for financial reasons – to gain competitive advantage, a greater share of a particular market, a wider investment portfolio and so on. Mergers between voluntary organisations have been less common until recent years. Mergers such as those leading to the establishment of the Carers National Association (now Carers UK) in the 1980s, or of Jewish Care and Norwood Ravenswood in the 1990s received a lot of media attention as such mergers were then relatively uncommon.

Since then several further mergers have taken place. They have included the high profile mergers of the London-based Terrence Higgins Trust with regional HIV / AIDS agencies, London Lighthouse and others to form Terrence Higgins Trust Lighthouse; Parentline Plus (from the National Step-families Association and Parentline); Homeless Link (from Homeless Network and the National Housing Alliance) and the joining of the Cancer Research Campaign with the Imperial Cancer Research Fund to form Cancer Research UK. Mergers and the development of group structures have also become a regular feature of the social housing field. Other agencies, such as Age Concern and Help the Aged, have considered merger, but ultimately decided to remain independent.

There seems, then, to be something of a 'climate for merger'. The factors leading individual voluntary organisations to consider merger will be discussed later, in the drivers to merge section. Here, we look at the broader social and public policy developments which are creating an environment where merger may be considered, even if ultimately rejected.

The wider public policy context

The voluntary sector is now seen as a key provider of public services, an agent of government policy in tackling issues such as social exclusion and community deprivation, and an essential ingredient in the process of maintaining civil society. Current social policy trends increasingly assume, encourage or require voluntary sector engagement in partnerships of various kinds. Examples include New Deal initiatives, Action Zones, Sure Start and Local Strategic Partnerships.

There has been a view amongst the general public that there are too many charities, or too many operating in a particular field with similar aims: for example, the Charity Commission's Survey of Public Attitudes in 1999 found that a majority of those questioned felt that there were too many charities. While in the private sector competing providers are often seen as offering consumer choice and lower prices, in the voluntary sector the existence of a range of agencies doing broadly similar work can be seen as wasteful duplication. This is especially the case if they are competing for the same constrained funding 'pots', eg. Lottery money, a charitable foundation or local individual donors.

These trends throw the spotlight on how voluntary organisations are managed and there is an expectation that they will be efficient and effective, especially when they receive funding from government agencies.

The overall public policy climate, then, is one in which collaborations, between voluntary organisations and also across sectoral boundaries, are very much in vogue.

The effectiveness, both of the sector as a whole and of individual agencies, is brought further into the spotlight as the role of the voluntary sector in public services partnerships expands. The Treasury's 2002 report on *The Role of the Voluntary and Community Sector in Service Delivery – a Cross Cutting Review* illustrates the Government's concern with reshaping its relationship with the voluntary and community sector, with "modernising" the sector and with making voluntary agencies more effective as service providers. While not specifically mentioning merger, it nevertheless demonstrates a continuing desire to see effective collaborative working.

The Strategy Unit's 2002 review, *Private Action, Public Benefit – A Review of Charities and the Wider Not-For-Profit Sector* considers the way in which the legal and regulatory framework of the voluntary sector might be overhauled. Included amongst its recommendations were "that the Charity Commission should provide specific advice to facilitate mergers, possibly by creating a dedicated internal unit" and "that a package of legal measures should be introduced that will facilitate mergers and, more generally, the administrative running of the charity". In turn, the Charity Commission published a report on *Collaborative Working and Mergers* setting out its intention to expand its capacity for offering support and advice on charity mergers.

3. Forms of organisational collaboration

It is important to remember that “full merger” is just one of a range of collaborative working options. Others include ‘takeover’, ‘strategic alliance’, ‘joint working’ and ‘partnership’. Organisations will benefit from careful consideration of which, if any, form of collaboration is appropriate for their circumstances.

We have found that Bill Mather’s categorisation to be a useful way of thinking about different levels of engagement for voluntary organisations.¹

- **Joint benefit**
Staff and trustees of two or more organisations actively co-operate with each other; work together; take each other into consideration in operational activities; no heavy investment from any party. Examples might include learning and sharing networks; open access to each other’s facilities and services.
- **Joint project**
Two or more organisations agree to collaborate to achieve chosen common objectives; goals agreed and delivery undertaken with regular consultation. Could include campaign alliances, co-ordinated new developments, joint events.
- **Joint management**
Takes a joint project a stage further; not just sharing the work on a goodwill basis, but operating a joint management structure, with risks and benefits shared. This is most common within the housing association field: more than half of all the housing association homes in the UK are now owned by housing associations that are within group structures.
- **Joint strategic development**
Involves development and implementation of plans and priorities and high degree of interdependency; organisations involved embark on longer-term strategic development as a way of fulfilling both their missions, but at the same time preserve each organisation intact).
- **Full merger**
Combined governance, corporate identity and legal form.

Here, merger is one of a range of possible forms of organisational collaboration; any one of the more limited forms of joint working may lead to another, but progression is not automatic. It is certainly not inevitable that any form of collaboration will necessarily lead to a full merger.

4. Drivers to merge

The public policy context described earlier (see [the context for merger](#)) has created a climate in which consideration of the possibility of merger has become more likely. The decision to merge may be the result of strategic choice, or it may be an unplanned reaction to perceived crisis. Much of the early voluntary sector research on organisational mergers concentrates on the latter, describing merger as a last resort effort to survive in response to environmental pressures² or a strategy for dealing with an environment of uncertainty and scarce resources³.

¹ Mather, 2000

² Singer and Yankey, 1991

³ Wernet and Jones, 1992

Other authors refer to economic uncertainty as a major motivation for agencies considering merger ⁴ or point to the influence of funding bodies in encouraging collaboration ⁵. Within the housing association field, where mergers are increasingly commonplace, the most common cause appears to be associations running into serious problems that attract adverse regulatory intervention, thus reducing that association's strategic options and making it vulnerable to other, more 'predatory' associations.

Our research suggests that, while economic factors and the influence of funding bodies can certainly affect the decision to merge, other factors, or more often a combination of factors, are often present, including:

- **Users' changing needs.** The changing needs of users has been an influence on merging organisations operating in the fields of HIV/AIDS, housing and homelessness, disability and work with children and young people. Merging has been seen as providing an opportunity of providing a wider, more coordinated and consistent range of services
- **Advocacy.** Changing public policy trends, together with increased competition for funds as government priorities shift, have led some organisations to feel that there might be benefits to be gained from collaboration as a means of presenting a unified voice to advocate on behalf of users and influence government policy.
- **Organisational vulnerability.** In a changing public policy environment, there can be concern about the need to demonstrate effective use of resources and to secure an adequate share of a diminishing pool of money. Even if there are no immediate resource problems, some agencies feel that they would have a better chance of long-term survival as part of a larger organisation.
- **Personal involvement and interest.** Chief Executives of some smaller agencies have felt that there would be benefits for their paid staff and volunteers as a result of closer collaboration with others in the same field, for example increased opportunities for training and development, the opportunity to use new skills, gain accreditation and so on.
- **Common organisational features and cultures.** Factors such as shared roots and values, similar organisational concerns and agreement about the needs of users can support the development of closer working relationships which may lead to the consideration of merger.
- **Inter-personal and inter-organisational relationships.** A history of collaboration and the development of relationships based on trust can also contribute to laying the foundations for consideration of the possibility of merger.

In the Terrence Higgins Trust national merger, multiple drivers led the participant agencies to consider how they might work more closely together. No one factor could be isolated as the most significant; rather internal and external factors combined to create a climate where merger seemed both appropriate and desirable.

⁴ e.g. Schmid, 1995

⁵ e.g. Cowin and Moore, 1996

5. Stages in the process of merger

Merger is a crucial act in the life of any organisation. There is general agreement amongst researchers that with the idea of merger is a process of organisational integration taking place over a period of time rather than a discrete event.

We have found it helpful to consider four stages:

- **Stage One: Negotiation**

To test the purpose and strategic sense, assess broad issues of 'fit', identify any obvious 'deal breakers' and establishing the level of commitment amongst both management teams and boards to take it to the next stage.

- **Stage Two: Decision-taking**

To complete initial consultation with key stakeholders and partners, reach consensus and formal agreement on a vision and model for the new organisation, explore how the more obvious power problems (for example, who is going to be Chair and who is going to be Chief Executive) as well as identify timescales and process for subsequent stages. Stage Two would conclude with both Boards reaffirming their initial decision in principle to proceed to a merger.

- **Stage Three: Planning**

To complete the formal and strategic preparations for merger, including due diligence and relevant transfer arrangements, prior to the formal and final decision to merge.

- **Stage Four: Implementation**

To begin making a reality of the vision and strategy for the new organisation.

The amount of time needed for each of these phases may vary considerably from one situation to another – it should not be assumed that a set period must be allowed for any particular phase, since individual situations will affect the time needed. In some cases the stages may overlap (for example where there are already loose co-operative ventures in place), or there may be pauses between one phase and the next.

6. Critical success factors

Our research suggests that there are a number of factors which make a merger between two or more voluntary organisations more likely to 'succeed' – in the sense of achieving the desired aims of merger and a smooth process of implementation. Some relate to particular stages of the merger process; others apply throughout.

- **Purpose and vision.**

The purpose and vision of the new organisation need to be clearly and commonly understood and articulated. Keeping the reasons for the merger in mind can increase the chances of overcoming problems and achieving aims.

- **The Business Case**
The two (or more) organisations involved need to be able to set out why merger would enable them to meet their respective objectives more effectively. This may include being able to demonstrate tangible benefits to users/other beneficiaries, or greater financial strength that could in turn enable the merged organisation to expand its services or meet other objectives. A strong business case can help to overcome a wide range of objections, particularly where personalities may be getting in the way of the 'greater good'.
- **Leadership.**
Leadership is essential at all stages of the merger. Key tasks include: being able to maintain and explain the vision of the new organisation; finding solutions to the difficult issues relating to staffing, governance, organisational culture and structure; and dealing with unanticipated problems.
- **Plans for the process and for the new organisation.**
Organisations can benefit from a clear plan for key aspects of the merger process, e.g. strategic planning, decision making and communications. It is also important to be clear about likely job definitions and role relationships (reporting mechanisms and levels of authority and decision-making) for the new organisations as early in the planning process as possible.
- **Adaptation and compromise.** At the negotiation stage in particular, willingness to compromise in the pursuit of the desired longer-term aims of merger is important – for example over issues such as organisational name, key personnel and board composition.
- **Strategic and organisational 'fit'.** Before taking the decision to merge, it is useful to consider how well matched are the potential merger partners in relation to issues like: their roots and ideology; governance, structure and decision-making processes; financial resources and funding base; organisational strategy and use of technology.
- **Management of different cultures.** The potential difficulties of reconciling different organisational cultures (for example, physical environment, decision-making, ways in which staff relate to users and volunteers) are referred to frequently in the research literature on mergers. It is clearly important to address differences in culture and working practices at an early stage rather than risking the growth of a divided organisation.
- **Resources.** The cost of merger, in terms of staff time, money and human resources, should not be underestimated. The cost of developing a new organisational infrastructure, identity and publicity materials is likely to be substantial. At the same time, it seems unlikely that, in the short term, a merged organisation will significantly increase its voluntary income. Thus, it is vital that short and long-term budgets are realistic and not over-ambitious.
- **Recognising human factors.** It is a particular feature of the voluntary sector that staff, trustees and volunteers often make a great deal of personal investment in their organisation and its mission. It is therefore especially important to take account of their concerns, at both the planning and implementation stages, and

recognise that a range of organisational change techniques may be required to respond to any resistance to change.

- **Good communications.** Staff involvement in the merger process is likely to vary according to their location and level of seniority, and in a large organisation in particular it may not be possible to consult everyone. But keeping everyone informed, and reminding people of the purpose of the merger, will be very important and might minimise some of the anxiety or conflict that may arise.
- **Evaluating the process.** As voluntary sector mergers become more common, a merged organisation may well find itself involved in a later merger. It is important therefore to reflect on the process, to learn lessons from it and to consider what might be done differently on another occasion.

7. Deal breakers

'Deal breakers' are factors which can prevent a merger from happening. Where possible, it is preferable to identify and attempt to address these as early as possible. This can contribute to a merger succeeding or ensure that a lot of abortive work is avoided. Possible deal breakers include:

- **Culture.** The difficulty of reconciling different organisational cultures is frequently cited in the research literature. This might include problems over methods of decision making, ways of involving users or external relationships.
- **The balance of power.** In most mergers there are a reduced number of key positions. If there is only going to be one Chair, one Board, one Chief Executive and one Management Team, then there are bound to be a number of 'losers'. It is quite common for the Chair to be from one organisation and the Chief Executive from another, but this does not work at every level and cannot be the basis for selecting a Management Team. In addition, if the organisations involved are significantly different in size, it may be hard to avoid the feeling that the larger organisation is 'taking over' the smaller one.
- **Resources and human factors.** Merger is expensive in terms of the time, energy and other human resources needed to see it through: this short-term cost may outweigh any anticipated, longer-term gain.
- **Opposition.** Opposition to merger may come from a number of sources: for example, stakeholders in the organisation who feel that their own position is threatened; users, who feel they will lose valued services; founders and founder members; other voluntary organisations who feel bigger players in the field will threaten their own position.

8. Benefits of merger

Organisations enter into merger negotiations for a wide variety of reasons (see drivers to merge), seeking a wide range of benefits. These desired benefits can be underpinned by assumptions, for example that merger will lead to economies of scale, increased voluntary income or a higher national profile. Where possible, these assumptions need to be tested - through contact with other merged organisations, research and thorough discussion amongst all key stakeholders as to what they expect from merger and how it might be achieved. In addition, it can take a lot of time to establish a consolidated infrastructure, develop consistency and equity of service provision and achieve cultural integration.

The perceived benefits of merger very much depend on what the particular merger partners want to achieve and whether they feel that merging has secured the desired results:

- The benefits of the Terrence Higgins Trust national merger have been described as including increased and improved services, as well as a stronger national voice / increased profile for HIV
- Parentline Plus have identified the favourable response of statutory funders
- Cancer Research UK have increased their voluntary income and developed new research.

9. Key questions / issues to take into account

Our research suggests that organisations might benefit from addressing a number of key questions before making a firm decision about merger.

- Do the parties have the same objectives?
- What do the parties hope to achieve through organisational collaboration? Can this only be achieved through a merger?
- Is there a shared vision for what the merged organisation might look like, what its role might be, what services it might provide? If not, can this be developed?
- Is there a good business case in terms of better services for end users of increased capacity to deliver services or other tangible benefits for the objectives of both organisations/
- In what areas do the merger partners complement each other and where are they incompatible? Do the complementary factors outweigh the areas of incompatibility or are the latter major obstacles to merger?
- What are the areas of organisational strength and weakness of each party?
- What is the 'bottom line' in the sense of what organisational features must be retained? Where is there scope for compromise?

- What are the hopes and fears of key stakeholders? How can these best be addressed?
- Who is likely to oppose the idea of merger and why?
- How will the merger partners cope with anxiety from staff, users and other stakeholders?
- How will the change process be managed?
- How will the key power issues be resolved?
- Who will be Chair and Chief Executive and how will Board and Management Team composition be determined?

These questions are only the beginning; if a decision to merge is taken there will need to be a thorough process of 'due diligence', detailed negotiation and planning. They do, however, set a framework for initial discussion as to whether merger is worth pursuing and what might, in broad terms at least, need to happen as the next stages unfold.

10. Further Definitions

There is no single accepted definition of voluntary sector merger. Some examples of definitions used are:

- "Mergers and consolidations are permanent relationships between two or more organizations that involve the combining of boards, staff and physical facilities. A merger is the complete absorption of one organization (which loses its corporate existence) by another whose corporate existence is preserved" (Singer and Yankey, 1991).
- "The result of a decision by two or more organizations to combine their operations in a permanent relationship" (Golensky and DeRuiter, 1999).
- ".....an integration that includes the integration of all programmatic and administrative functions to increase administrative efficiency and program quality of one or more organizations. Mergers occur when one or more organizations dissolve and become part of another organization's structure. The surviving organization may keep or change its name. A merger also occurs when two or more organizations dissolve and establish a new structure that includes some or all of the resources and programs of the original organizations" (Kohm et al., 2000).

'Mergers' are sometimes distinguished from 'acquisitions'. While some authors use the two words interchangeably, others use the term 'merger' to describe two or more organisations joining together to form a new entity and 'acquisition' to refer to the absorption of one organisation (which loses its corporate existence) by another whose corporate existence is preserved.

11. Further resources

These key findings have referenced and drawn on various journal articles, policy documents and other publications, many of which are available both in hard copy and electronically:

Journal Articles and Publications

Ansoff, I. (1988) *Corporate Strategy*, Penguin, Middlesex

Cowin, K. and G. Moore (1996) 'Critical success factors for merger in the UK voluntary sector', *Voluntas*, 7, 1, pp66-86

Golensky, M. and G.L. DeRuiter (1999) 'Merger as a Strategic Response to Government Contracting Pressures: a case study', *Nonprofit Management and Leadership*, 10, 2, pp137-152

Kohm, A.; D. La Piana and H. Gowdy (2000) *Strategic Restructuring: Findings from a Study of Integrations and Alliances among Nonprofit Social Service and Cultural Organizations in the United States*, Chapin Hall Center for Children, University of Chicago, Chicago

Mather, B. (2000) *Merging Interests*, Baring Foundation, London

Schmid, H. (1995) 'Merging Nonprofit Organizations: Analysis of a Case Study', *Nonprofit Management and Leadership*, 5, 4, pp377-392

Singer, M.I. and J.A. Yankey (1991) 'Organizational Metamorphosis: A Study of Eighteen Nonprofit Mergers, Acquisitions and Consolidations', *Nonprofit Management and Leadership*, 1, 4, pp357-369

Wernet, S. and S. Jones (1992) 'Merger and Acquisition Activity Between Nonprofit Social Service Organizations: A Case Study', *Nonprofit and Voluntary Sector Quarterly*, 21, 4, pp367-380

Public and Social Policy

Charity Commission (2003) *RS4 - Collaborative Working and Mergers*, (also available at <http://www.charity-commission.gov.uk/publications/rs4.asp>)

Her Majesty's Treasury (2002) *The Role of the Voluntary and Community Sector in Service Delivery – A Cross Cutting Review*, HM Treasury, London (also available at: www.hm-treasury.gov.uk)

<http://www.parliament.the-stationery-office.co.uk/pa/cm200102> (Includes details of government Select Committee on Science and Technology discussion of the merger of the Cancer Research Campaign and the Imperial Cancer Research Fund).

<http://society.guardian.co.uk/voluntary/story> (includes article entitled 'Let's get together' with brief details of various merged organisations and links to other relevant articles and websites)

Strategy Unit (2002) *Private Action, Public Benefit – A Review of Charities and the Wider Not-For-Profit Sector*, Cabinet Office, London (also available at: www.cabinet-office.gov.uk)

www.liv.ac.uk/law/units/clu.htm (website of the Charity Law Unit at Liverpool University; produce publications on legal aspects of merger)

Voluntary Sector Mergers

www.cancerresearch.uk.org (Cancer Research UK website; includes information on achievements in the year following merger of the Cancer Research Campaign and Imperial Cancer Research Fund).

www.parentline.co.uk (website of Parentline Plus; includes brief details of their recent merger)

www.tht.org.uk (Terrence Higgins Trust Lighthouse website; includes history of the organisation and information about the various mergers that have taken place since 2000)

www.crisis.org.uk (Crisis website)

www.homeless.org.uk (Homeless Link website)