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To merge or not to merge?

By Perpetual Impact
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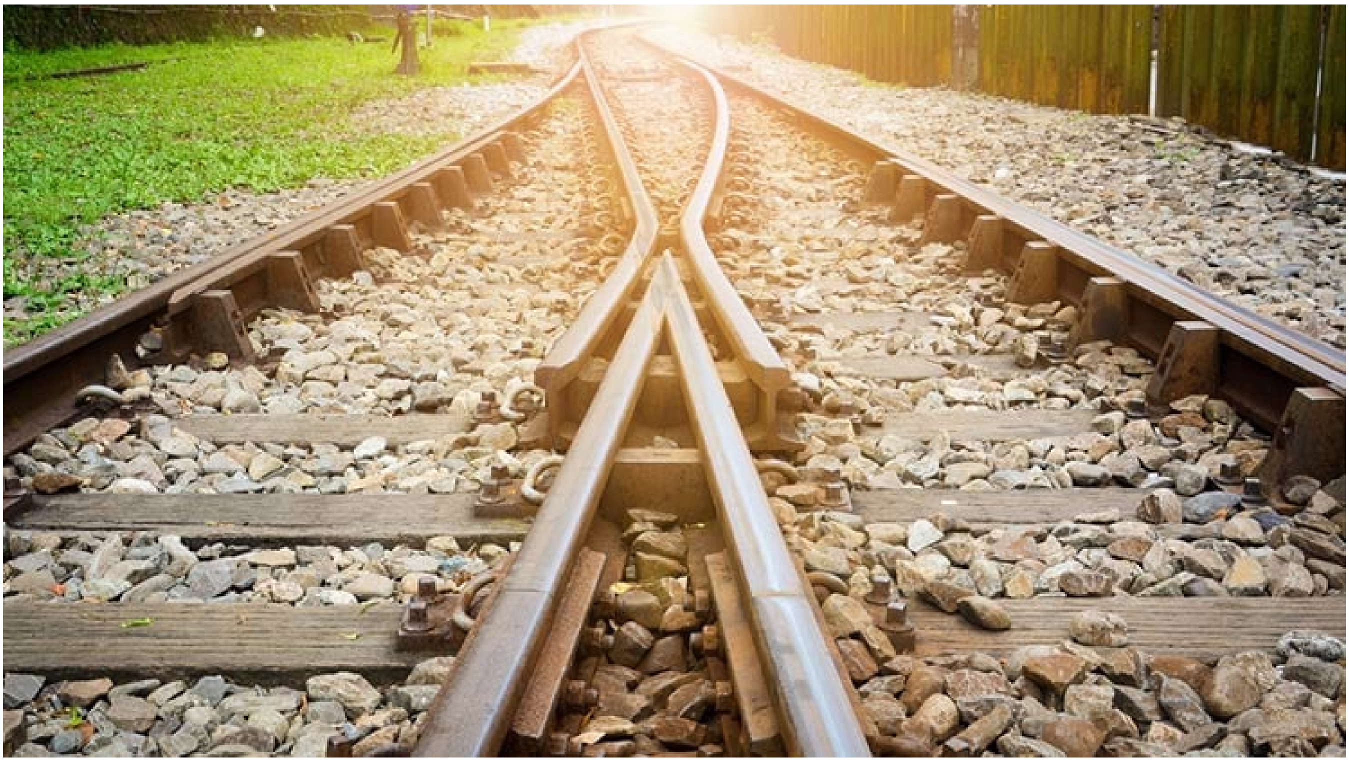

An environment of heightened competition, tight funding and greater demand for services has

Mergers have become a trending concept in the NFP sector. According to the Australian Institute of Company Directors (AICD), 30% of NFP directors had discussed merging in the past year and 29% thought their NFP was more likely than not to merge within two years.[1]

Caitriona Fay, General Manager – Community and Social Investment at Perpetual Private suggests that the predominant purpose of pursuing a merger is to allow two or more organisations to achieve their objectives more effectively and efficiently.

“By pooling resources and avoiding duplication to achieve the advantages of scale, organisations can provide the best possible service to members. This may result in increased reach, impact and greater satisfaction for all stakeholders.”

Why do NFPs merge?

Research from the AICD suggests that the top reasons why NFPs merge are to:

- Better meet the mission of the organisation (35%);
- Broaden the range of services to existing users (24%);
- Develop or maintain market share (22%);
- Improve efficiency (18%);
- Increase the number of people served (18%);
- Gain greater financial sustainability (14%);
- Increase size (12%);
- Act on government encouragement (9%).

Source: Australian Institute of Company Directors, (2019) Not-for-profit Governance and Performance Study, page 41.

Caitriona Fay suggests: “Organisations need to conduct thorough investigations, planning and discussions before commencing the merger process. The risks and benefits should be carefully weighed up to determine whether a proposed merger would achieve positive long-term results for each entity.”

“Philanthropists can play an important role when it comes to funding some of the more high-risk and high-reward capacity building that government may not have appetite to fund. And mergers certainly fall into this category,” she adds.

Philanthropists can play an important role in enabling not-for-profits to come together to

The experience of Good2Give and ShareGift

In December 2019, Good2Give and ShareGift announced that they would merge to grow corporate philanthropy and shareholder giving in Australia. Good2Give's technology, supported by ShareGift's platform will enable shareholders to consolidate their giving across their share portfolio, and for charities to receive funds more efficiently.

"This merger has the potential for significant impact – releasing millions in previously under-utilised share capital to charities," asserts Good2Give's CEO Lisa Grinham.

Anna Draffin, ShareGift's Executive Director adds: "As the only service of its kind in Australia, ShareGift's merger with Good2Give will build on our existing market expertise, enabling us to unleash more share capital for the benefit of more charities."

In the case of Good2Give and ShareGift, philanthropic funding was secured to enable the merger to occur. A second funding round will be sought this year for technology and resource investment to further build capacity.

Good2Give's CEO, Lisa Grinham says, "We are seeking funders who want to build the capacity of the NFP sector. ShareGift has enormous potential to generate capital that would otherwise not be accessible to charities. At Good2Give, we have a strong track record; in the last six years, we have secured around $5 million in funding and delivered more than $120 million to the NFP sector. We are seeking philanthropists who are excited by technology, innovative models and delivering new low-cost funding to Australian charities."

Philanthropists can play a pivotal role in facilitating mergers

The challenges associated with merging assets and resources are high for NFPs. There are significant administrative costs involved in assessing the viability of a merger. There may be accounting fees, due diligence fees and legal fees for investigating the potential of transferring important contracts such as funding contracts, subcontracting arrangements or lease arrangements. There are further costs involved in drafting contacts and integrating infrastructure, people, systems and processes if a merger is deemed feasible and worthwhile.

Caitriona Fay weighs in: "In the for-profit world, boards are more likely to spend money on scoping the possibility of a merger to increase shareholder value. Compare this to NFP organisations that may not have adequate funding to service their existing projects and community needs. For many NFPs, the possibility of a merger may be out of reach because of the cost of exploration and implementation. That's why philanthropic funding is essential. Philanthropists can play an important role in enabling NFPs to come together to build capacity

Final thoughts

As government support becomes more constrained, philanthropic funding plays an important role – both in enabling NFPs to conduct the preliminary investigation and planning as well as facilitating the next phase of execution and implementation of the merger.

At Perpetual, we believe in working with clients to build capacity that funds a NFP's greatest need, be it a project to investigate the possibility of a merger of some other organisational priority.

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1. 2019, Australian Institute of Company Directors, 2019 Not-for-profit *Governance and Performance Study*, page 40.