

## Strategic Restructuring: Part II: Experience from the Field

Evaluation findings from the Nonprofit Sustainability Initiative indicate that the following factors are key to success in strategic restructuring:

- Sufficient time to devote to the process.
- Internal clarity.
- Honest upfront conversations.
- Trust.
- Positive previous working experience.
- Compatible cultures and mission.
- A clear understanding of the strategic restructuring process and deliverables.

A recent issue of our newsletter included input from two local nonprofit leaders regarding the issue of internal clarity in their experience with strategic restructuring. We're pleased to provide additional information here, drawn from our interviews with:

**Joe Costa**, CEO, Hillside. Joe has participated in nonprofit mergers and restructuring efforts in both Southern and Northern California. He recently spearheaded a merger between Hillside and Bienvenidos Children's Center, creating an organization that will serve more than 13,000 children, youth and families annually.

**Jay Allen**, COO, Junior Blind. Jay has been involved with five separate nonprofit mergers. He has been instrumental in bringing two Northern California organizations into the Junior Blind family, thus expanding the organization's reach with regard to both geography and service array.


### Sufficient time to devote to the process:

**Joe:** "The due diligence has to be very rigorous."

**Jay:** "The process, if you're going to do it right, can be time consuming. . . . It takes time to find the right partner and to get to an agreement."

Why does it take time? Both Joe and Jay emphasize the importance of *due diligence*. Says Jay, "It's important to determine how the agencies would come together in terms of governance, programming, human resources, finance and accounting, development, marketing and more. There are a lot of decisions to be made. For example, you don't want two different clinical records systems. What do you do when you have different PTA accrual methods? It's important to identify any areas of potential risk."

The two also agree that legal counsel is important — as is the involvement of financial leaders at the organization. Specific structures for decision-making at the board level vary. At Junior Blind, for example, a Strategic Alliance Committee of the board charged



the executive team with engaging in initial discussions with other organizations. In this way, any obvious “deal breakers” could be identified *before* the conversation rose to the board level, says Jay. However, whatever the specific process, the boards of all the organizations involved in the strategic restructuring process must also be closely involved — and must make time for the strategic conversations, due diligence and other activities required to achieve success.

### **Honest upfront conversations and trust:**

**Jay:** “My world view is that it’s best to overcome people’s fears with direct face-to-face conversations.”

**Joe:** “Keep it honest [especially] when you’re dealing with issues that might otherwise lead to the smaller of the two organizations feeling disenfranchised.”

A variety of fears — fear of job loss, fear of losing control when a smaller organization merges with a larger one, fear of losing philanthropic support — can stymie conversations around strategic restructuring. Many of these fears are unfounded, say both our interviewees, and in all cases are best addressed by open and honest communication. “In my experience, it’s helpful to ask people what their greatest fears are upfront, and then work through them together,” says Jay.


In the end, adds Joe, conversations should come back to “the *value* [of the restructuring] to each organization and why you want to be associated with each other.” (Remember: Internal clarity is an important success factor!)

NSI underscores that it’s also important to get away from the idea that restructuring and mergers are signs of weakness or a last resort for failing nonprofits. In best practice, restructuring is a strategy to *enhance nonprofit capacity*, rather than prevent failure!

Another important consideration, says Joe, is that “Many nonprofit board members are from the for-profit sector and their perspective is to look for the financial benefit in a merger — and to be leery of what they fear is greater potential risk.... However, the value proposition of the merger is about what’s being provided to [the organization’s clients] and the question is, is this restructuring helping us deliver those services more efficiently so we have more resources to apply to them? This takes the conversation beyond assets to value,” he adds.

### **Compatible cultures and mission:**

**Jay:** “We look for situations that are win-win. Most of the time, there isn’t complete alignment. You can only determine this by being transparent about what’s important to you, what the deal breakers are....”



**Joe:** “Ultimately it goes back to what is the *value* of the other organization and why you want to be associated with them.”

In addition, it’s important to remember that negotiations to enter into a merger or other strategic restructuring — and the creation of a comprehensive operational agreement — are just the beginning of a longer process, which will require ongoing efforts to succeed. Even when cultures and mission are compatible, much strategic work will be required to achieve real “togetherness.”

“The *real* work,” says Jay, “starts when you actually merge.”

**Clear understanding of process and deliverables:**

To ensure the strategic restructuring process is transparent and all involved are clear about deliverables, open communication is essential. This is important at all levels of the organization.

Our interviewees shared some particularly helpful tips with regard to board involvement:

- The process of drafting and reviewing specific operational agreements requires significant input from the boards of all organizations involved in the restructuring effort. Involving the board in this process helps ensure that board members have a clearer understanding of what the merger will mean.
- It is helpful for board members to visit each other’s organizations on “learning tours.”
- Setting up a data site where relevant documents can be accessed (with appropriate authorization) can help streamline the process for everyone — and ensure everyone is “on the same page.”

The entire board of the organization should be engaged in the strategic restructuring process, and “It’s important to keep the board informed and have them appreciate the context” of the merger or other restructuring, Joe says.

As our interviewees also emphasize, one size does not fit all when it comes to strategic restructuring. For example, a merger agreement may involve the CEO of one organization staying in place for a short of time only, to help with the transition, or continuing as the head of a program under the larger organization’s umbrella, or leaving altogether. When it comes to such important questions, it’s helpful for the board to reach clear decisions as early as possible regarding what’s desirable, what’s acceptable and what’s a deal breaker.

NSI’s evaluation findings also show that hiring an expert consultant is helpful in providing structure and objectivity to strategic restructuring efforts — and in managing and sticking to schedule.

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**For more information about how Thurlow/Associates can help your organization pursue opportunities for strategic restructuring, contact us for a no-cost consultation. You can reach us at (310) 675-6497 or at [hello@thurlowassociates.com](mailto:hello@thurlowassociates.com).**