

Pulling Together:

Strengthening the Nonprofit Sector Through Strategic Restructuring

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FOREWORD

Strategic Solutions was formed in 1998 to broaden the nonprofit sector's perception, understanding, and use of strategic restructuring – a continuum of partnerships including mergers, joint ventures, administrative consolidations, and joint programs. Soon after the initiative began, we retained The Conservation Company to evaluate its progress. The evaluation has proven to be a dynamic force in the evolution of the initiative, providing ongoing analysis that informs program design and helps the participants to continuously refine the work as it develops.

Paul Connolly and Peter York, who are leading The Conservation Company's evaluation team, wrote this report. The purpose of the monograph is to share some early findings from the evaluation, most of which focus on the need and demand for information about strategic restructuring and the amount of research on the subject. We have also included some preliminary insights about how the various Strategic Solutions strategies are doing, as well as the implications for this initiative and similar efforts.

We welcome your thoughts about the Strategic Solutions initiative and your suggestions for ways to build upon this work.

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INSIDE:

Introduction and Background	2
The Strategic Solutions Initiative	2
The Evaluation	3
The Preliminary Evaluation Findings	6
A Need for Information and Assistance	6
- Nonprofits: Very Little Familiarity or Use	6
- Funders: Little Knowledge about Process, Much Confusion about Roles	7
- Consultants: Limited Skills	7
- Researchers: Growing Interest	8
Strategic Solutions: Meeting a Growing Need	8
- Direct Assistance	8
- Research and Development	8
- Communications and Dissemination	9
- Local Partnerships	9
- Consultant Training	9
Implications of the Findings	10
Next Steps in the Evaluation	11
Resources	12

INTRODUCTION AND BACKGROUND

Throughout the 1990's and continuing today, stiff competition, rising community needs, decreasing funding, the growth of managed care, and upward pressure on salaries, among other factors, have caused more nonprofits to consider strategic restructuring. A model for creating partnerships between and among organizations, strategic restructuring enables nonprofits to forge a wide range of advantageous alliances, from mergers, joint ventures, and parent-subsidiary structures to administrative consolidations and joint programs. (See Exhibit 2: The Types of Strategic Restructuring on pages 4-5 and the Resources section on page 12.) It can help nonprofits create a continuum of services under unified control, gain a larger market share, and achieve greater economies of scale. The ultimate benefits can include financial savings, sharing of expertise, and increased and improved services.¹ Some restructuring processes go well and result in clear improvements, as shown in this example:

Four national associations, all concerned with the same area of practice and funded in large part by the same small group of funders, entered into merger negotiations with the goal of consolidating their efforts and increasing their focus on member growth and services.

After a long and difficult negotiation process that was facilitated by a skilled consultant and supported by the key funders, three of the four decided to in fact merge. They consolidated offices, and redeployed staff. While no one lost his or her job, the merger allowed the new organization to form a senior management team from the former organizational leaders. The merger resulted in a substantial foundation grant for implementation of the partnership, including funds to mount a major communications and marketing effort.

This effort, as well as the higher profile of the merged entity, has resulted in substantial membership growth, which in turn has greatly increased the organization's ability to disseminate its messages and services to organizations and individuals around the country. Moreover, the organization is beginning to show signs of having a stronger national voice in public affairs related to its field of interest.

Yet not all nonprofit strategic restructuring processes result in such positive outcomes, and even those that do face considerable challenges along the way. **Most nonprofit organizations, funders, and nonprofit-oriented consultants struggle with planning nonprofit partnerships and need assistance.**

THE STRATEGIC SOLUTIONS INITIATIVE

Strategic Solutions strives to help nonprofit organizations advance their missions through the judicious application of strategic restructuring. The five-year (1998-2003) Strategic Solutions initiative hopes to achieve a lasting positive impact on the way the nonprofit sector perceives, understands, and employs strategic restructuring. Exhibit 1 on page 3 describes the main strategies of the initiative, and illustrates how resources have been and will be allocated for each strategy during each year.

The David and Lucile Packard Foundation, The James Irvine Foundation, and The William and Flora Hewlett Foundation have collaborated to provide and commit \$2,790,000 to support the initiative. La Piana Associates, a consulting firm that specializes in strategic restructuring among nonprofits (see www.lapiana.org for more information), was formed to implement the Strategic Solutions strategies. An Advisory Group comprising representatives of the three sponsoring foundations provides overall guidance for the initiative, as well as some direct support to Strategic Solutions' research and dissemination strategies.

THE EVALUATION

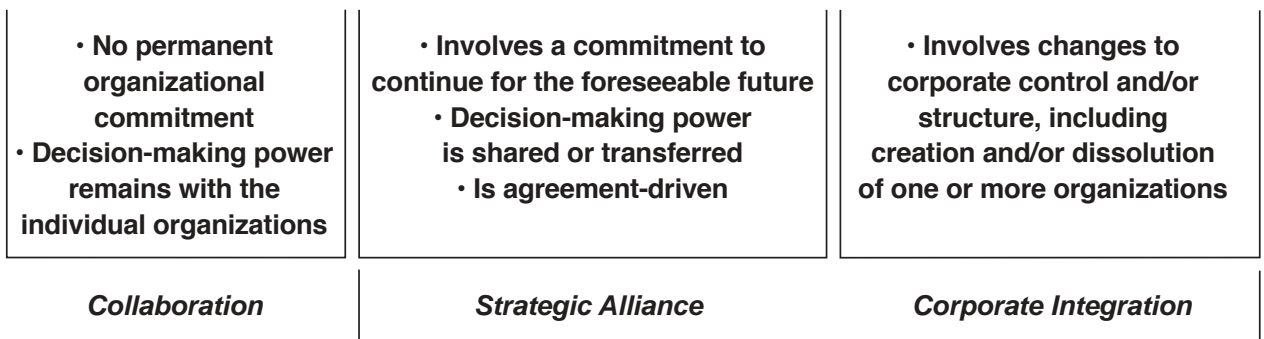
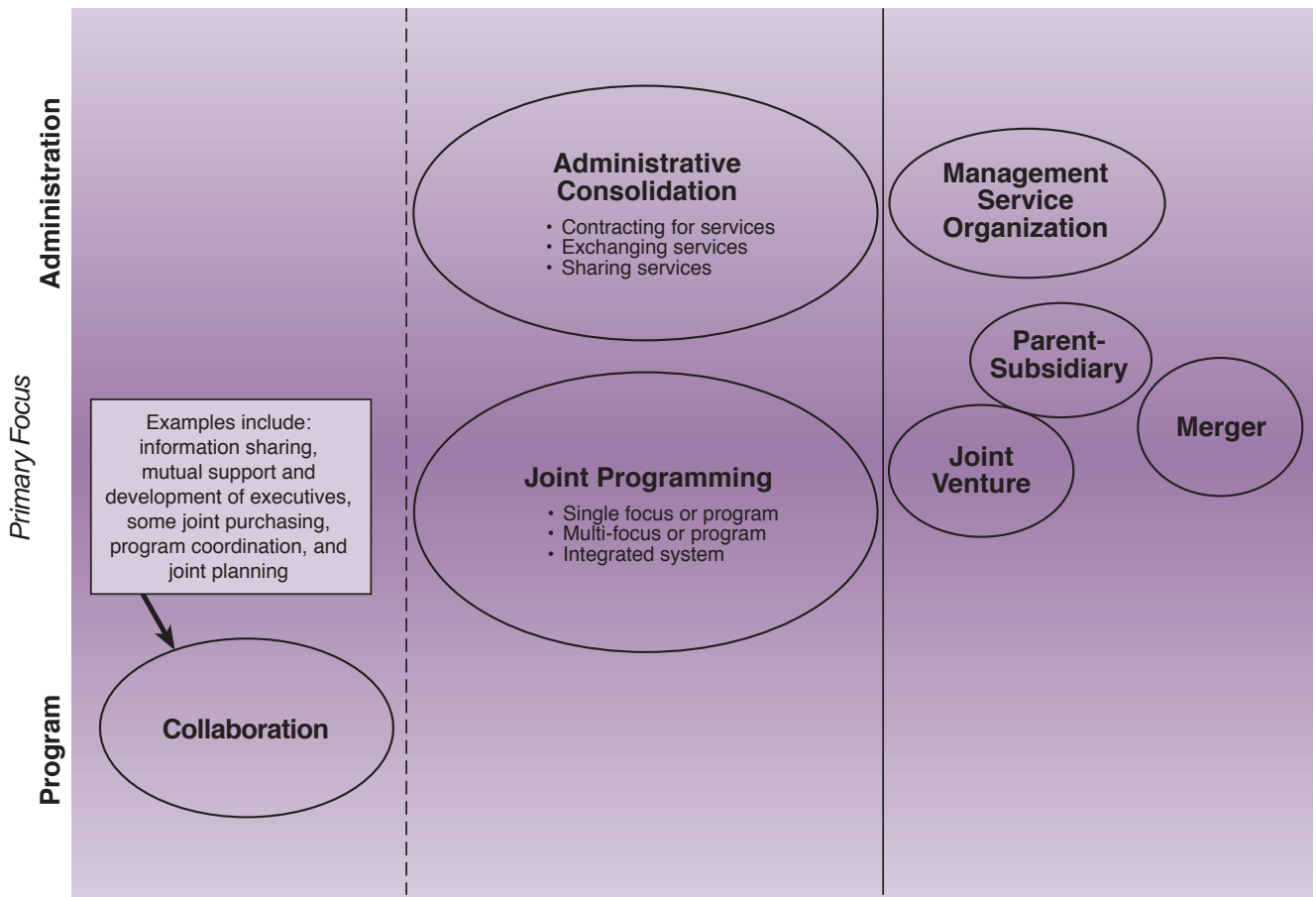
The Strategic Solutions Advisory Group retained The Conservation Company (TCC), a management consulting and evaluation firm, in November of 1999 to evaluate the initiative. The Conservation Company's evaluation has been designed to serve several broad purposes: to measure the effectiveness of strategies employed in the Strategic Solutions initiative; to inform and influence the evolution of that initiative; and to help bring findings from the initiative to the attention of a wider audience. At the outset, TCC worked with the funders, Strategic Solutions staff members, and the

Advisory Group to develop a logic model to serve as the framework for the evaluation (see Exhibit 3 on pages 6 and 7). TCC then developed a set of core evaluation questions and examined them, using both qualitative and quantitative methods, including a literature review as well as 50 interviews and surveys of 545 nonprofit leaders, funders, and consultants. Over the past two years, TCC has evaluated the environmental context within which Strategic Solutions functions, the quality and adequacy of program resources and inputs, the quantity and quality of the initiative's processes and strategies, and the short-term outcomes.

Exhibit 1: The Initiative at a Glance

Strategy	Scope of Activity	Level of Activity by Year (✓=low ✓✓=moderate ✓✓✓=high)				
		Period examined during the evaluation reflected in this report			Activities not yet evaluated that are happening now or planned for the future	
		98-99	99-00	00-01	01-02	02-03
1) Direct Assistance Providing direct consulting assistance (subsidized fully or in part through Strategic Solutions) to nonprofit organizations that are pursuing strategic restructuring.	National, with a focus on CA	✓✓✓	✓✓	✓		
2) Research and Development Conducting research on the use and effectiveness of strategic restructuring.	National	✓	✓	✓✓	✓✓✓	✓✓✓
3) Communications and Dissemination Communicating and disseminating information and research on strategic restructuring through reports, publications, the Strategic Solutions web site, a newsletter, workshops, and/or consultation.	National	✓✓	✓✓	✓✓	✓✓	✓✓✓
4) Local Partnerships Collaborating with California-based management support organizations and community foundations to serve as a resource to their nonprofit constituents through such activities as providing information, workshops, and/or consultation.	CA-only focus	✓	✓	✓	✓✓	✓✓
5) Consultant Training Providing training to consultants in three phases (1-day introduction, 2-day intensive, and networking/coaching) on how to facilitate strategic restructuring processes.	Primarily CA, with some activity in other states	✓	✓✓	✓✓	✓✓	✓✓

Exhibit 2: The Types of



Strategic Restructuring

Strategic Restructuring²

Strategic restructuring occurs when two or more independent organizations establish an ongoing relationship to increase the administrative efficiency and/or further the programmatic ends and social mission of one or more of the participating organizations through shared, transferred, or combined services, resources, or programs. Strategic restructuring always involves a partial or total change in the locus of control of one or more of the partnering organizations.

Strategic Alliance

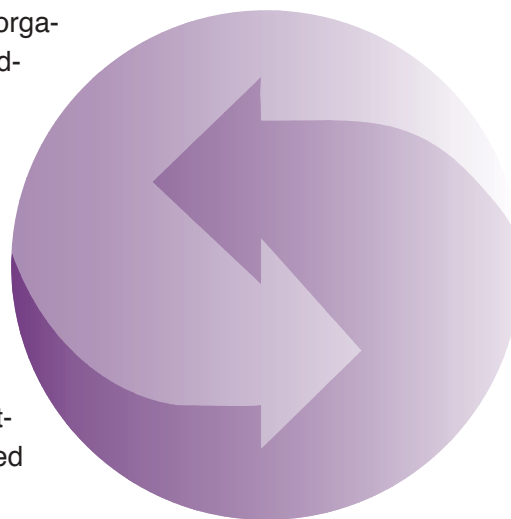
An alliance is a strategic restructuring that involves a commitment to continue, for the foreseeable future, shared or transferred decision-making power, and some type of formal agreement.

- An **administrative consolidation** is an alliance that involves the sharing, exchanging, or contracting of administrative functions to increase the administrative efficiency of one or more of the organizations.
- A **joint programming** is an alliance that involves the joint launching and managing of one or more programs to further the programmatic mission of the participating organizations.

Corporate Integration

An integration is a strategic restructuring that involves changes to corporate control and/or structure, including the creation and/or dissolution of one or more organizations.

- A **management service organization (MSO)** is an integration that involves the creation of a new organization in order to integrate administrative functions and thus increase the administrative efficiency of the participating organizations.
- A **joint venture corporation** is an integration that involves the creation of a new organization to further a specific administrative or programmatic end of two or more organizations. Partner organizations share governance of the new organization.
- A **parent-subiliary** structure is an integration that involves both administrative functions and programmatic services. The goal is to increase the administrative efficiency and program quality of one or more organizations through the creation of a new organization or the designation of a preexisting organization (parent) to oversee the administrative functions and programmatic services of one or more other organizations (subsidiaries).
- A **merger** is an integration that involves the integration of all programmatic and administrative functions to increase the administrative efficiency and program quality of one or more organizations. Mergers occur when two or more organizations combine all assets and liabilities and join together under one corporate structure.



THE PRELIMINARY EVALUATION FINDINGS

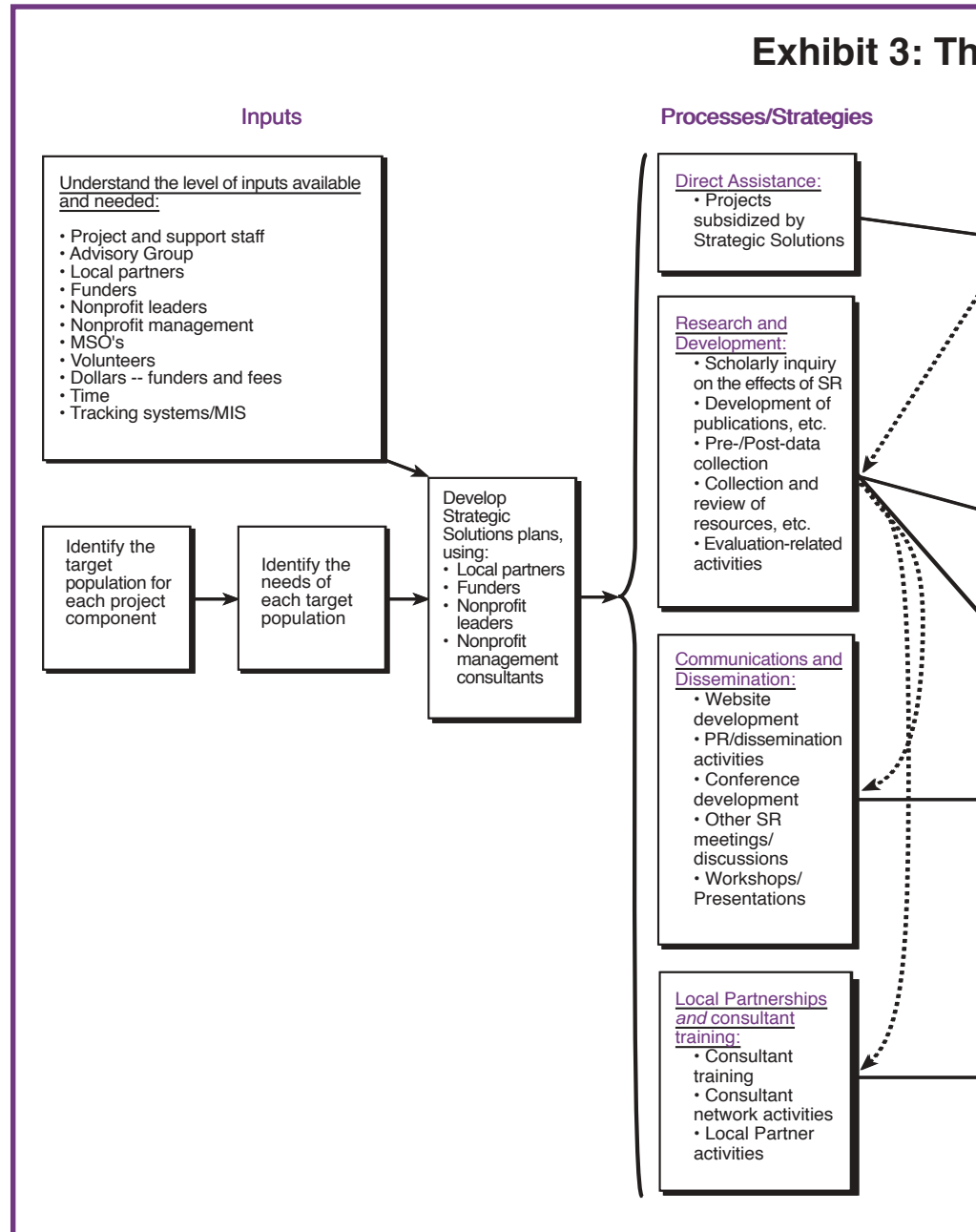
A NEED FOR INFORMATION AND ASSISTANCE

Nonprofit organizations are struggling with leadership, management, and fundraising and need to build their organizational capacity. Yet nonprofits seldom consider strategic restructuring as an approach to enhance their organizational effectiveness. The Conservation Company's interviews and surveys revealed that nonprofits, funders, and consultants have limited knowledge, skills, and experience related to strategic restructuring. Meanwhile, researchers have become more interested in the topic.

Nonprofits: Very Little Familiarity or Use

Few nonprofit leaders are knowledgeable about strategic restructuring or understand how it can help build organizational capacity. Almost one in three of the nonprofit leaders surveyed are "not at all familiar" with strategic restructuring concepts, and another third are only "slightly" familiar. Nonprofits resist acquiring detailed knowledge of strategic restructuring for two reasons: they perceive the process as a threat to organizational autonomy, and they believe that restructuring means only merger.

The survey of nonprofit leaders found that one in six has been through some form of strategic

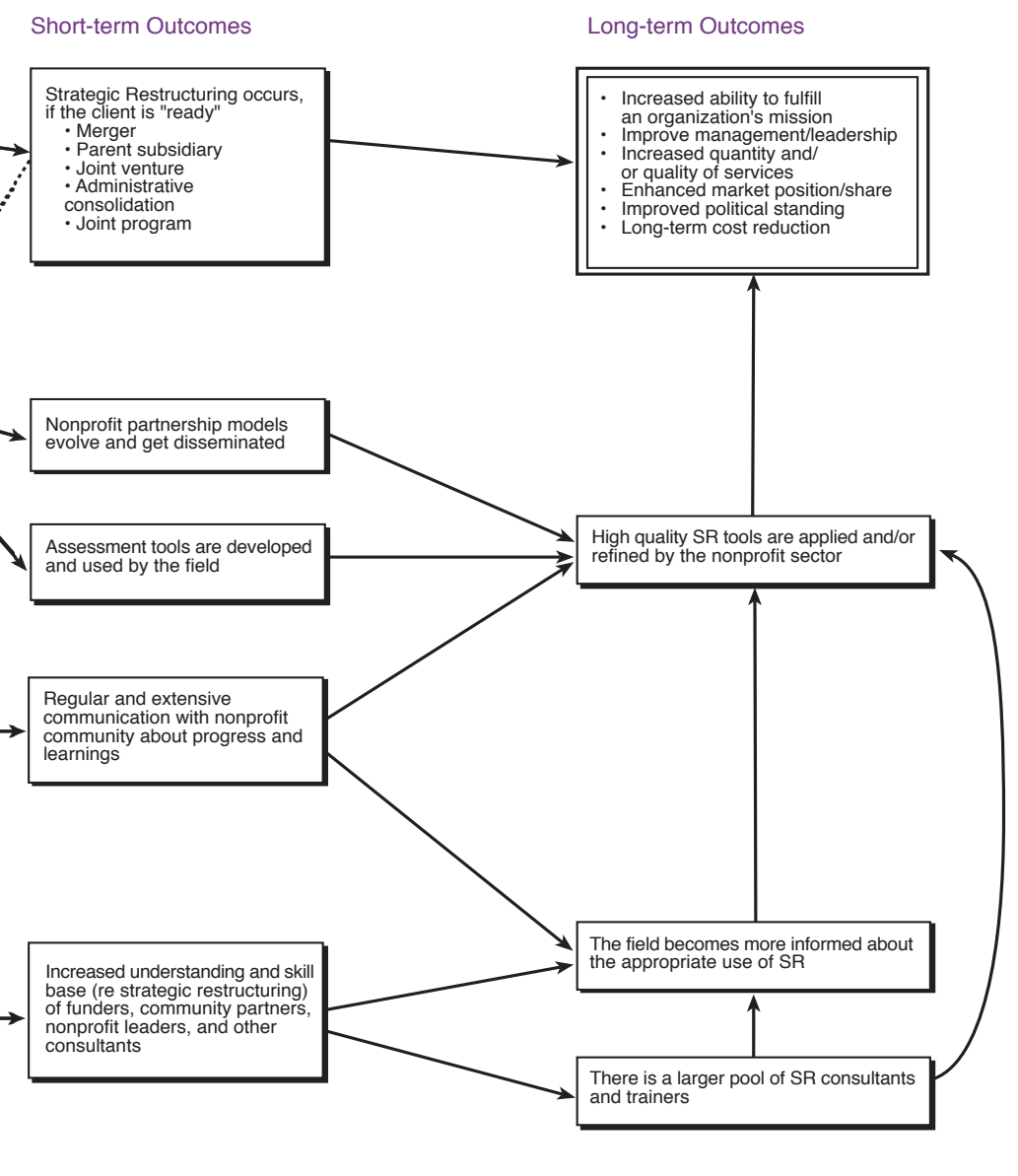


restructuring. A large majority (69%) of the nonprofit leaders whose organizations have been through a strategic restructuring process felt that it met "most" or "all" of their expectations for improving organizational capacity.

A majority of the respondents viewed information on strategic

restructuring as highly important to the field. But, significantly, only a third of the respondents viewed this information as extremely important to themselves or their organizations. This implies that most view the information as necessary for other nonprofit organizations, but not for their own organization. So, there seems

Logic Model



seem appropriately supportive of strategic restructuring for their grantees. Over half of the funders surveyed have supported some form of strategic restructuring. At least a quarter of these funders have provided either technical assistance for the process, funding to hire an outside consultant, access to information sources, or facilitation to connect potential partners.

Many funders are unclear about their role in planning and implementing strategic restructuring. Many experts maintain that funders should not drive the move to restructure because their grantees will be less likely to “own” the process and results. However, others thought that unless nonprofit organizations were pushed, they would resist even considering strategic restructuring, let alone implementing it.

Consultants: Limited Skills
Although some consultants to nonprofits are aware of strategic restructuring, few would be able to effectively guide organizations through the process. Three out of five consultants surveyed felt only “slightly” or “not familiar at all” with strategic restructuring concepts and only one in five felt “very” or “extremely” confident explaining mergers to a colleague. Only one in five consultants

to be a gap between need and demand for information on nonprofit strategic restructuring.

Funders: Little Knowledge about Process, Much Confusion about Roles

While they are aware of the concepts of collaboration and mergers, very few funders understand

strategic restructuring terms or processes well. The survey found that almost two-thirds of all funders (65%) felt they were only “slightly” familiar or “not familiar at all” with concepts related to strategic restructuring.

Despite this lack of familiarity and knowledge, most funders

surveyed have facilitated at least one restructuring process.

However, consultants are beginning to recognize that funders and nonprofit organizations will be considering strategic restructuring more frequently in the future, and are therefore seeking out more knowledge and skills. Yet, there are very few ways to acquire these skills.

Researchers: Growing Interest

Researchers' interest in strategic restructuring has grown over the past several years. As Exhibit 4 indicates, from 1993 to 1999, the number of books, chapters in books, and research articles in professional and academic journals on the subject grew from a low of 8 in 1995 to a high of 29 in 1999 and then dipped to 17 in 2000. General interest newspaper articles on nonprofit strategic restructuring increased dramatically in 1999 and 2000. While research-based publications indicate interest in examining the concept of strategic restructuring, mainstream newspaper articles reflect activity in that area.

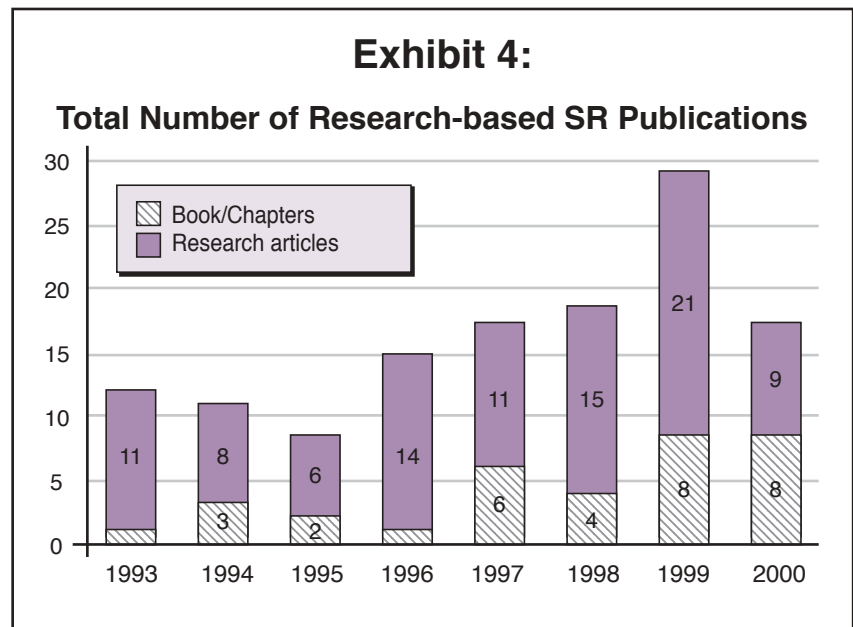
STRATEGIC SOLUTIONS: MEETING A GROWING NEED

The preliminary findings show that the Strategic Solutions initiative is progressing well and has achieved many of its short-term goals during 1998-2001. Strategic Solutions has been an effective leader in helping people in the field consider strategic restructuring as one of many ways to build the organizational capacity of nonprofit organizations.

Direct Assistance

Strategic Solutions consultants helped 27 nonprofit organizations negotiate and/or implement a strategic restructuring process during the 1998-2001

period. **Almost 90% of these engagements led to some form of strategic restructuring.** Without Strategic Solutions, most of these clients did not have the necessary skills, knowledge, or financial resources to assess and implement the strategic restructuring process. TCC interviews revealed that the consulting assistance met clients' expectations. Clients thought that the consultants helped build consensus and confer legitimacy on the process through their status as experts. This made them especially effective in resolving "people issues" and organizational culture and identity challenges. All



of these direct assistance engagements have informed the research. Most of the clients interviewed expected to achieve greater organizational effectiveness and efficiency as a result of the restructuring, but it is premature to measure this.

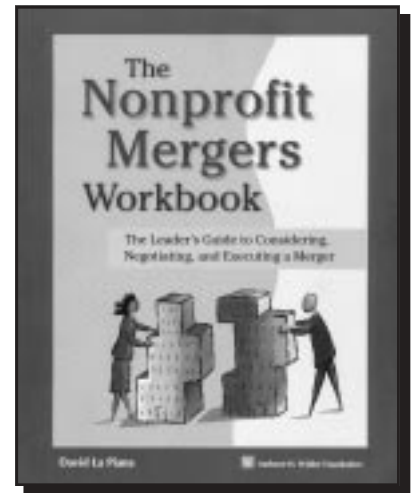
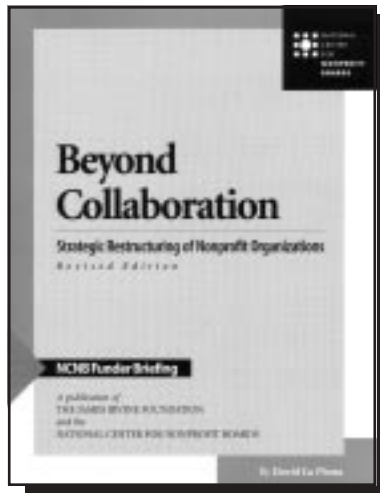
Research and Development

Between 1998 and 2001, Strategic Solutions developed a bibliography of resources on the topic of strategic restructuring; helped conduct a study of 192 nonprofit strategic alliances; and completed the research necessary for several publications. **One in five funders, one in four consultants, and one in ten nonprofit leaders surveyed have utilized at least one of the initiative's research-based resources or materials.** Strategic Solutions' research

materials and resources include: the Strategic Solutions Web site; the Strategic Solutions newsletter; *Beyond Collaboration: Strategic Restructuring of Nonprofit Organizations*; *Nonprofit Mergers: The Board's Responsibility to Consider the Unthinkable*; *The Nonprofit Mergers Workbook*; and *Strategic Restructuring: Findings From a Study of Integrations and Alliances Among Nonprofit Social and Cultural*

Local Partnerships

Strategic Solutions worked with ten local partners (management support organizations and community foundations) throughout California to provide a variety of services to their constituents.³ Through local partnerships, Strategic Solutions presented workshops and seminars on strategic restructuring, advised local nonprofit organizations,



Organizations in the United States. On average, funders, nonprofit leaders, and consultants surveyed rated the quality of Strategic Solutions' research-based materials as "good." When they are involved in strategic restructuring, they tend to turn to Strategic Solutions' research materials for information.

Communications and Dissemination

Strategic Solutions has communicated information about strategic restructuring effectively to members of the nonprofit community through its Web site, e-mail newsletters, and publications. By 2001, over 1,500 individuals were visiting the Web site each month. In addition, Strategic Solutions has provided 61 workshops/presentations for 4,527 nonprofit leaders and funders during the first three years of the initiative. **Those who attended these sessions developed a better understanding of the concepts of strategic restructuring and became more comfortable considering the process as a means to build organizational capacity.**

and trained local consultants. **Local partnerships have extended the initiative's reach and impact.**

Consultant Training

Strategic Solutions increased the limited pool of qualified consultants in the field by providing a three-phase training program on facilitating strategic restructuring. Phase I is a one-day overview of the process; Phase II is a three-day intensive skill-building workshop; Phase III is a Strategic Solutions-managed consultant support network. By the end of 2001, over 230 consultants had attended Phase I workshops and 25 of these consultants had gone on to complete Phase II. All consultants who attended the Phase I and II training sessions rated the quality of these sessions as "high." The consultants felt the training had improved their skills related to strategic restructuring. **Following the training workshop, eighteen percent of Phase I participants and twenty-three percent of Phase II participants went on to facilitate strategic restructuring processes.**

IMPLICATIONS OF THE FINDINGS

Many nonprofits, along with the funders and management assistance providers that support them, are investing more in activities that build their capacity. But for the most part, strategic restructuring is not among those activities. Why?

The findings show that most nonprofit leaders not only know very little about strategic restructuring, but also believe that it is not relevant to their organizations. Funders and consultants do not understand strategic restructuring well either. Moreover, funders are unclear about their role in promoting the process and consultants do not have the necessary skills to guide it.

During its first three years, Strategic Solutions has helped to address these problems. Yet much more is needed in the following areas:

- ***Direct Assistance***
Nonprofit organizations need more consulting assistance in all stages of strategic restructuring, from planning to implementation, especially in the areas of staff integration and leadership transition.
- ***Research and Development***
Additional research is needed to understand the appropriate uses of strategic restructuring in the nonprofit sector. Some critical questions to examine: When are organizations ready for restructuring? What roles do leadership and organizational culture play in the process? What is the impact of restructuring on overall organizational effectiveness? What factors are critical to the success of a strategic restructuring effort once it is implemented? Funders and researchers could join forces to create, support, and pursue a common research agenda.
- ***Communication and Dissemination***
What *is* known about strategic restructuring needs to be broadcast more widely. Success stories will make the subject seem more interesting and relevant to decision-makers. Because their influence in the sector is so powerful, funders should be specially targeted as audiences for this information.
- ***Local Partnerships***
Local management support organizations and community foundations occupy a critical position in the nonprofit network. Partnering with these groups makes it possible to reach a wide array of nonprofit organizations in diverse communities. The initiative is making good progress with this strategy. Now some local partnerships should be strengthened in order to better leverage their resources and extend their influence.
- ***Consultant Training***
As nonprofit leaders and funders become more knowledgeable about strategic restructuring, they will begin reaching out to consultants more frequently for assistance in applying the concept. But many consultants now providing this assistance are not fully prepared for the task. More consultants need to be trained to effectively facilitate strategic restructuring processes.

Strategic Solutions is planning to address these needs in the final phases of the project. But this initiative alone cannot solve all of these problems. Other researchers, consultants, writers, publishers, trainers, and management support organizations can and should help. And more funders need to support their efforts.

NEXT STEPS IN THE EVALUATION

As this evaluation enters its final phase, The Conservation Company, working with Strategic Solutions' staff and the Advisory Group, will examine more deeply:

- how consultants who have been trained by Strategic Solutions are applying their skills
- the impact the initiative has had on funders' roles in encouraging and supporting strategic restructuring among their nonprofit grantees
- organizational capacity improvements among clients who received direct assistance from Strategic Solutions and La Piana Associates

At the end of the project, final evaluation findings and lessons learned will be disseminated.

Endnotes

- 1 Kohm, Amelia. *Preliminary Research Findings, Study of Strategic Restructuring Among Nonprofit Organizations in the U.S., Phase 2*. Chapin Hall Center for Children at the University of Chicago. March, 2002.
- 2 Kohm, Amelia, La Piana, David and Gowdy, Heather. *Strategic Restructuring: Findings from a Study of Integrations and Alliances Among Nonprofit Social Service and Cultural Organizations in the United States*. The Chapin Hall Center for Children at the University of Chicago. June, 2000.
- 3 The local partners are: Center for Nonprofit Management, Los Angeles; Compasspoint, San Francisco and San Jose; East Bay Community Foundation, Oakland; Humboldt Area Foundation; Monterey Community Foundation; Nonprofit Resource Center, Sacramento; San Diego Foundation; Santa Cruz Community Foundation; Sonoma Area Foundation; and Volunteer Center of Sonoma.

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