in search of

STRATEGIC SOLUTIONS

a funders briefing on nonprofit strategic restructuring

a five-year follow-up to *Beyond Collaboration*

by David La Piana and Amelia Kohm

GRANTMAKERS *for* EFFECTIVE ORGANIZATIONS

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Executive Summary

In Search of Strategic Solutions: A Funders Briefing on Nonprofit Restructuring draws on five years of research, training and consulting work by La Piana Associates' Strategic Solutions Project, including a landmark national study, *Strategic Restructuring: Findings from a Study of Integrations and Alliances Among Nonprofit Social Service and Cultural Organizations in the United States,* conducted by Chapin Hall Center for Children at the University of Chicago in conjunction with Strategic Solutions.

The study is a follow-up to *Beyond Collaboration,* a report commissioned by The James Irvine Foundation and published by BoardSource (formerly the National Center for Nonprofit Boards) that looked at the emerging phenomenon of nonprofit partnerships that allow organizations to share resources and expertise.

The National Study

The national study identified two major types of strategic restructuring, as well as six subtypes:

- alliances, which include joint programming and administrative consolidations; and
- integrations, which include management service organizations (MSO), joint ventures, parent-subsidiaries and mergers.

To learn how frequently organizations use strategic restructuring, in 1999 we surveyed a random sample of nonprofits in two cities. Twenty-four percent of those responding had some type of strategic restructuring experience. Through follow-up case study interviews, we spoke with staff members, board members and funders who described how combining resources through strategic restructuring partnerships allowed their organizations to

- save funds, primarily through volume buying and sharing employees;
- hire and share more experienced staff members than they could have attracted on their own;
- provide employees with improved compensation and greater career opportunities.

However, they also described significant costs and challenges of strategic restructuring. Organizations should consider whether the potential gains outweigh the financial and time expenditures required to start and maintain partnerships.

We then asked 20 leaders in the nonprofit and philanthropic sectors to reflect on the study findings and predict the future course of strategic restructuring in the sector. Seventeen of them predicted that strategic restructuring would increase in the years to come.

Funder Recommendations

Based on our new findings and on our ongoing research and consulting practice, we offer some suggestions for funders at the end of this report:

- Encourage grantees to investigate the potential for cost savings or other benefits from strategic restructuring before forming partnerships.
- Fund long-term evaluations with focus on costs and benefits.
- Support research and education focused on postconsolidation challenges.
- Support nonprofits in planning and implementation.
- Be careful not to pressure nonprofits to try strategic restructuring.

Introduction

In 1996, when staff at The James Irvine Foundation in San Francisco looked at their grantees, they saw overlapping programs, service gaps, turf battles and a lack of coordination. They also sensed a growing interest and experimentation in partnerships that allowed organizations to share resources and expertise — partnerships we now call "strategic restructuring." Strategic restructuring includes both partial and full consolidations among nonprofit organizations, and thus refers to a range of partnership options, from joint programs or shared administrative functions to full-scale mergers (see Partnership Matrix, page 5).

The Irvine Foundation asked David La Piana — who had overseen several mergers as a nonprofit executive director and consultant — to explore strategic restructuring through interviews with 36 nonprofit and foundation leaders. La Piana distilled their thoughts on how funders can best assist nonprofits considering or involved in strategic restructuring.

The resulting report, *Beyond Collaboration: Strategic Restructuring of Nonprofit Organizations* (1997), filled a large gap in knowledge about these types of partnerships. The sector's reaction to *Beyond Collaboration* reinforced the foundation's view that nonprofits were ready to make use of information on strategic restructuring. Since 1997, thousands of printed copies of *Beyond Collaboration* have been requested from around the United States and from as far away as Israel and New Zealand. Additionally, thousands of copies have been downloaded from various Web sites. College courses have used the report, and La Piana Associates staff has spoken on it in more than 100 presentations around the country. Clearly it struck a chord in the sector.

Also over the past five years, a growing number of publications on the topic have appeared (see Suggested Resources, page 23). These include at least three books, several doctoral dissertations and numerous articles in various nonprofit sector periodicals. Even the mainstream press has taken notice. In November 2000, the *San Jose Mercury News* ran a front-page story on the nonprofit merger phenomenon in Silicon Valley. Since 1997, more than 150 articles on strategic restructuring have appeared in regional and business newspapers.

The foundation community also responded to *Beyond Collaboration*. The David and Lucile Packard Foundation and the William and Flora Hewlett Foundation joined The James Irvine Foundation in developing the Strategic Solutions initiative, a five-year project led by La Piana Associates to develop the sector's knowledge of strategic restructuring. This project has been the primary vehicle for gathering and organizing the learnings about strategic restructuring contained in this report.

The Original Findings

Discussions with key informants focused on five basic research questions:

1. How can we best define and describe the options for nonprofit strategic restructuring?
2. Is the climate right for strategic restructuring? Will successful restructuring improve the functioning of nonprofits?
3. What pressures lead nonprofits to consider strategic restructuring, and what difficulties prevent them from bringing these efforts to fruition?
4. How can funders encourage nonprofits to undertake strategic restructuring without being perceived as applying pressure to do so?
5. What educational activities can funders promote to encourage strategic restructuring activities such as mergers, consolidations and joint ventures?

Based on these conversations, La Piana concluded that many nonprofits were considering a number of different types of strategic restructuring partnerships due to changes in the sector. The interviews also suggested that nonprofits considering or planning partnerships needed more information on and support for strategic restructuring. Information on success factors from organizations that had tried strategic restructuring (successfully or not) was still lacking.

Beyond Collaboration identified some of the basic and most persistent challenges to strategic restructuring: overcoming threats to organizational autonomy, addressing the vested interests of the leaders of partnering nonprofits and navigating the inevitable cultural clashes. Over the intervening years we have learned of additional challenges and of many successful (and some less successful) strategies for addressing them. We have also learned something about the costs and benefits of strategic restructuring.

The original report asked as many questions as it answered. Ultimately, it called for additional research and education. This follow-up is an answer to that call. After five years of research, training and consulting in the area of strategic restructuring, Strategic Solutions and Chapin Hall Center for Children, a policy research center at the University of Chicago, offer *In Search of Strategic Solutions: A Funders Briefing on Nonprofit Restructuring*, an updated funder briefing on the topic.

> Over the years we have learned of additional challenges and of many successful strategies for addressing them. We have also learned something about the costs and benefits of strategic restructuring.

The New Findings

This report revisits the questions first posed in *Beyond Collaboration* and addresses them by drawing on findings from our recent national study on strategic restructuring as well as lessons learned from other Strategic Solutions research and consulting activities.

Each of the following five sections begins with one of the questions addressed in *Beyond Collaboration*, briefly reviews our initial learning on the issue and then provides an updated answer based on evidence from our recent research findings and consulting practice.

Background on the National Study

The national study, *Strategic Restructuring: Findings from a Study of Integrations and Alliances Among Nonprofit Social Service and Cultural Orga-*

nizations in the United States (2000) collected data from 192 nonprofits around the country that identified themselves as having experience with strategic restructuring. These experiences ranged from basic sharing of resources and expertise to stable, long-term relationships with other organizations. We used this information to determine what types of partnerships exist and identified two major categories and six subtypes into which the partnerships fell. These categories (alliances and integrations) and subtypes (joint programming, administrative consolidation, management service organizations, joint ventures, parent-subsidiaries and mergers) are charted on the Partnership Matrix, page 5.

We then surveyed a random sample of 400 nonprofits in Cleveland and San Francisco to determine the prevalence of strategic restructuring. Twenty-four percent of those responding (62 out of 262) had some type of strategic restructuring experience. We also conducted in-depth case studies of six partnerships, one representing each of the types of strategic restructuring. Finally, we shared our findings from the survey and case studies with 20 leaders in the nonprofit and philanthropic sectors and asked them to reflect on the implications for the future of the sector. (See list of leaders interviewed in Appendix, page 27.)

The national study was made possible by support from the Surdna Foundation, the Lilly Endowment, the George Gund Foundation, the Nonprofit Sector Research Fund of the Aspen Institute, the William and Flora Hewlett Foundation, The James Irvine Foundation and the David and Lucile Packard Foundation. A new book published by Praeger Publishers, *Strategic Restructuring for Nonprofit Organizations: Mergers, Integrations, and Alliances*, (see Suggested Resources, page 29) will provide a full review of findings from the study as well as detailed case studies of six strategic restructuring partnerships.

Question 1

How can we define and describe the options for nonprofit strategic restructuring?

Beyond Collaboration provided an overview of the types of partnerships that nonprofit leaders had observed. These included

- **mergers** — the full integration of separate nonprofit corporations to form a new whole,
- **back-office consolidations** — sharing of administrative services,
- **joint ventures** — new programmatic initiatives undertaken by separate nonprofits working together, and
- **fiscal sponsorships** — an arrangement whereby a nonprofit provides oversight and financial management for a grant or other activities of a nonexempt entity.

We found similar typologies, based on anecdotal experience, in other writings about consolidation and partnerships. However, we wanted to know if we were covering the whole landscape and identifying all of the partnership types that existed. This led to the national study conducted from 1998 to 2000, and the emergence of the Partnership Matrix. The matrix is a visual representation of the various types of strategic restructuring and how they differ from each other in terms of their degree of integration and their focus on administrative and program issues.

In a joint programming situation, one or more programs are managed cooperatively; with administrative consolidations, one or more administrative functions are shared.

Our thinking has matured dramatically through analysis of the data gathered in the study. Since the matrix was created, La Piana Associates has consulted on dozens of strategic restructuring projects, and this experience has further confirmed our belief that the matrix covers the universe of current nonprofit partnership models.

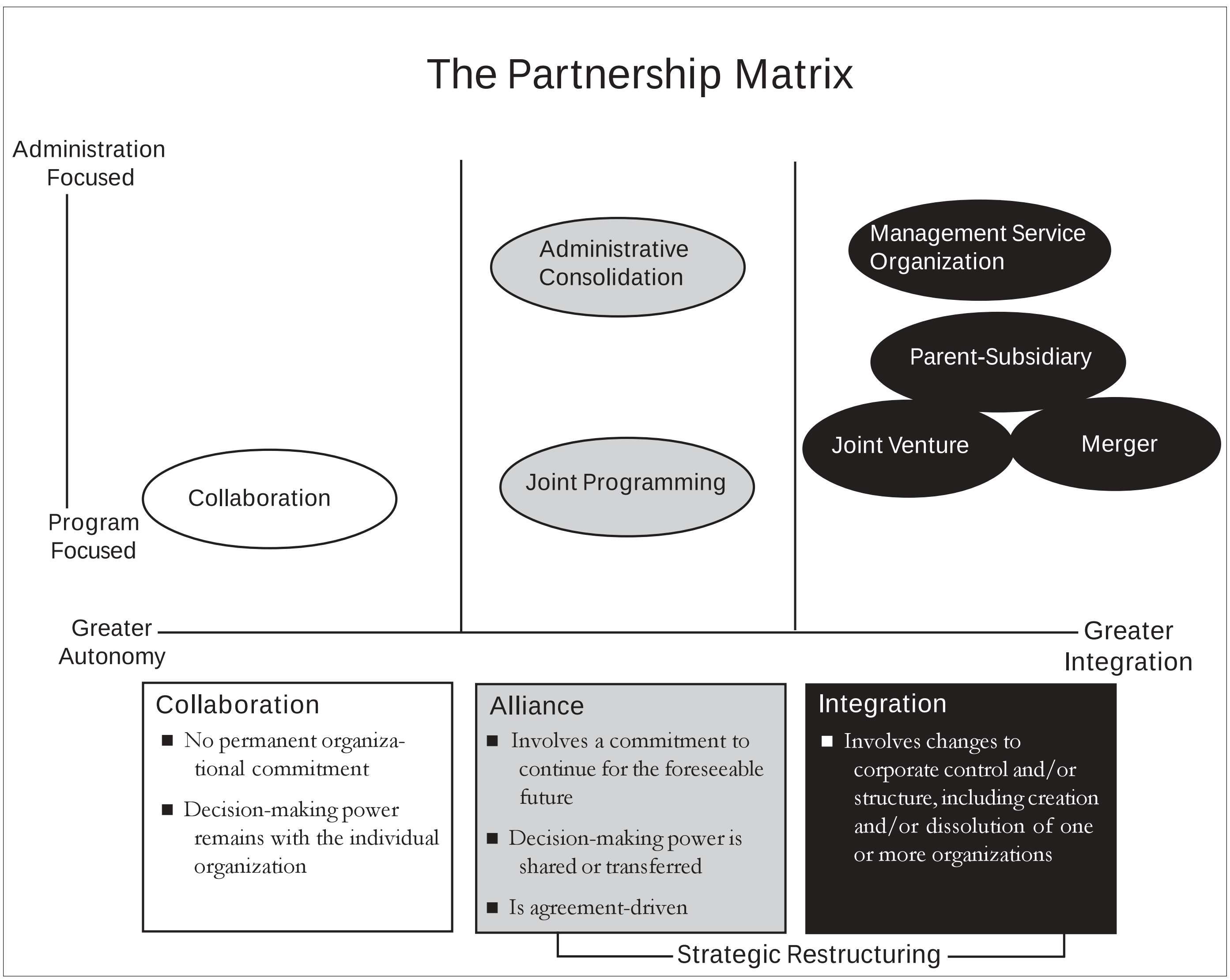
Please note that we have included on the matrix one type of partnership that is *not* a form of strategic restructuring: collaboration. *Collaboration* is variously defined by different people. We use it to refer to organizational partnerships that entail sharing information or coordinating efforts, but do not include shared, transferred or combined services, governance, resources or programs. Collaboration thus sits on the far left-hand side of the matrix to indicate that there is no integration among the participating organizations. Its placement on the matrix also reflects the reality that programs are most often the focus of collaboration, rather than administrative functions.

Alliances

The two types of alliances we have identified are joint programming and administrative consolidation, shown toward the left and center of the Partnership Matrix. Both are agreement-driven, meaning that the organizations commit, usually in writing, to an ongoing partnership involving joint management of one or more functions. In a joint programming situation, one or more programs are managed cooperatively; with administrative consolidations, one or more administrative functions are shared. Beyond the defined joint efforts, however, the partners operate independently. Below are brief examples of each of these types of partnerships from our case studies.

Joint Programming. Spokane Neighborhood Action Program, a human service organization offering a wide range of programs for low-income residents of Spokane, Wash., formed a micro-enterprise program with Northwest Business Development Association, which provides loans to small businesses in the Spokane area. The two organizations jointly run the program, which recruits, educates and provides loans so low-income adults can start small businesses. Outside of the micro-enterprise program, the two organizations function independently.

Administrative Consolidation. STEPS (Substance Abuse, Treatment, Education, and Prevention Services) at Liberty Center Inc. and Every Woman's House, a shelter for abused women, conducted a combined capital campaign and now jointly own the building that houses their offices in Wooster, Ohio. They also share some office equipment and several administrative staff members, including an



executive director. Their programs, however, operate independently under the governance of separate boards of directors.

Integrations

The four types of integrations in the Partnership Matrix are management service organization (MSO), joint venture, parent-subsidiary and merger. These partnerships share the characteristics of alliances, but also involve changes to corporate control or structure, including the creation or dissolution of one or more organizations.

Management Service Organizations (MSOs). Nonprofits establish MSOs to provide some or all of their administrative functions. Corporation for Public Management and New England Farm Workers' Council, both multipurpose human service organizations serving the Springfield, Mass., area, established a new organization, Partners for Community (PfC), to provide all the administrative functions for their organizations. PfC also provides more limited administrative support to four smaller organizations that are affiliates of the MSO. Administrative staff — such as accounting and fund-raising staff — performs back-office functions for all of the organizations affiliated with PfC.

Joint Ventures. Joint ventures involve two or more organizations creating a new structure to further a specific administrative or programmatic end, for example, to buy a new building or launch a new program. Speed Art Museum, Kentucky Art and Craft Foundation and Louisville Visual Art Association, the three major visual arts organizations in Louisville, Ky., created a limited liability company to jointly operate a gift store and gallery.

Parent-Subsidiaries. In a parent-subsidiary, one organization oversees another. For example, when nonprofits wish to merge but doing so would jeopardize a critical source of funding, they can use this mechanism to create an "arms-length" integration. Talbert House, a multipurpose human service organization in Cincinnati, became the parent of Core Behavioral Health Care, a mental health agency. Through the partnership, they have consolidated all of their administrative functions, their policies and procedures, and some of their programs. Core pays Talbert a management fee for administrative services. Talbert's board appoints Core's board, and three Core members sit on Talbert's board. Core's executive director reports to Talbert's president and CEO, but the Core board retains significant input to hire and fire its leader.

Mergers. Through mergers, previously separate organizations completely combine programmatic, administrative and governance functions. This may involve the creation of a new nonprofit corporation, or one or more organizations may dissolve into another. For example, Zonta Services and Peninsula Children's Center, two organizations that provided educational, mental health and other services to children with physical and mental disabilities in the San Francisco Bay Area, dissolved and merged all of their functions to become a new organization called ACHIEVE.

Question 2

Is the climate right for strategic restructuring, and will it improve the functioning of nonprofits?

The key informants interviewed for the original *Beyond Collaboration* study generally felt that "the writing was on the wall" for strategic restructuring. Consolidations were an inevitable result of the growth of the nonprofit sector and economic pressures that were limiting its resources. Further, they believed funders could help by providing information and resources to nonprofits struggling to find new solutions. However, at the time *Beyond Collaboration* was written, we did not have clear evidence to answer the second part of the question: Will successful strategic restructuring improve the functioning of nonprofits? We needed more information on the experiences of a wide range of partnerships. Moreover, we did not know if the climate, which the informants felt was ripe for consolidation, was actually leading to more consolidations, and if such a trend might continue.

Since the survey was conducted, the funding environment has changed rather dramatically due primarily to changes in the economy. We would expect that recent reductions in funding will lead some nonprofits to consider strategic restructuring as a way to appeal to funders' interests in efficiency and gain economies of scale. A longitudinal study (rather than a point-in-time survey) of the prevalence of strategic restructuring would provide a clearer picture of rates of strategic restructuring and if and how they vary with changes in the economy.

Drawing on data from the national study and other Strategic Solutions research, we address these questions below:

- How many nonprofits are actually consolidating?
- Might strategic restructuring in the nonprofit sector increase in the future?
- What are the benefits of strategic restructuring? Does it improve the functioning of nonprofits?

How many nonprofits are actually consolidating?

Although some consultants, funders and others have foreseen a wave of consolidation within the nonprofit world, no one has assessed how common strategic restructuring actually is across the sector. Strategic Solutions attempted to quantify the phenomenon by reviewing state and federal records on nonprofit dissolutions and mergers. This effort ultimately proved impossible due to conflicting, inconsistent and nonexistent government data related to nonprofit mergers.

Thus, to gain a better sense of its prevalence, we conducted a survey of a random sample of 400 nonprofits with annual revenues of $200,000 or more in Cleveland and San Francisco. We believe this sample provides an indication of the experiences of nonprofits across the country. Of the 262 organizations that responded to the survey, 24 percent had some type of strategic restructuring experience.

To see if certain types of organizations were more likely to consolidate than others, we looked for possible relationships between strategic restructuring experience and specified characteristics. We found no significant relationship between the programmatic focus or age of an organization and its experience with strategic restructuring. However, we did find that organizations with total annual revenues of more than $10 million were more likely to have strategic restructuring experience than those with revenues from $200,000 to $10 million.

Going into the study, we predicted that small organizations would be more likely to collaborate out of necessity whereas larger ones would be more likely to be able to operate independently. However, our findings may suggest that large organizations, unlike smaller ones, have the flexibility, in terms of time and money, to make a consolidation come about.

Our findings may suggest that large organizations, unlike smaller ones, have the flexibility, in terms of time and money, to make a consolidation come about.

Larger nonprofits may also have more relationships with other organizations that have the potential to become strategic restructuring partners. And — in a period in which managed care and other funding policies favor size — large organizations may be more appealing partners to other nonprofits than smaller groups. Moreover, large institutions may be interested in forming partnerships with smaller groups to benefit from their expertise in particular areas in which funders are interested. For example, a large child welfare agency that has traditionally focused on foster care may consolidate with a smaller organization with expertise in adoptions to be able to show funders that they offer a range of child welfare services.

Although these findings begin to clarify the phenomenon of strategic restructuring in the nonprofit sector, we need more information to interpret the information and to understand how the frequency of strategic restructuring has varied over time and within each subsector.

Might strategic restructuring in the nonprofit sector increase in the future?

Given the absence of clear data, we again conducted a survey. We asked 20 nonprofit and philanthropic leaders to reflect on the study findings and predict the future course of strategic restructuring in the sector. Seventeen out of 20 leaders predicted that strategic restructuring would increase in the years to come. The majority linked growth in consolidation to changes in public policies that are intensifying competition, such as vouchers for social services and managed care strategies. In many states government agencies are not implementing managed care as quickly as expected. However, the leaders of our case study organizations believed that managed care would eventually have a significant impact in their communities, particularly on child welfare and mental health agencies.

Other leaders saw competition rising because of the increase in the number of nonprofits. In *The State of Nonprofit America* (see Suggested Resources, page 23), Lester Salomon reports that between 1977 and 1997 the number of 501(c)(3) and 510(c)(4) organizations registered with the IRS increased by 115 percent or about 23,000 organizations per year, compared with 76 percent growth in the private sector. Some leaders pointed to growing competition from for-profit companies, noting that to compete effectively with well-financed corporations, more nonprofits may combine their resources, and others may form partnerships with for-profits.

In addition to competition for dollars, some of the leaders with whom we spoke forecasted heated competition for human resources. Organizations not able to find the leaders and employees they need, may increasingly consider sharing staff.

Competition is not the only reason the leaders predicted a rise in strategic restructuring activity. About a third of them believed an increase in partnerships will follow, at least in part, from funders pushing their grantees in this direction based on the belief that strategic restructuring can help organizations to be more cost-effective. Sometimes the pressure is direct — funders suggest that organizations consolidate. More often, organizations feel they must consolidate to meet funder expectations. For example, some organizations form partnerships to purchase new client tracking systems, which allow them to meet funders' expectations by accounting for how they use funds and what outcomes they achieve. Several leaders felt funders' beliefs about the potential efficiencies gained through strategic restructuring may be overly optimistic and should be tested by research.

It is worth mentioning that a few of the leaders we interviewed noted forces that would *limit* strategic restructuring in the future. For example, government interest in small, local, faith-based organizations may lead to the creation of more nonprofits serving niche populations rather than fewer, larger, consolidated, multiservice organizations. Similarly, funders' concerns about supporting "local capacity" may cause them to support small organizations.

> The smaller organizations involved in two of our cases saw an *increase* in operating costs as a result of their partnership.

What are the benefits of strategic restructuring? Does it improve the functioning of nonprofits?

Beyond Collaboration appeared at a time when there was virtually no information available on this key question — perhaps *the* key question, since strategic restructuring is only a worthwhile activity if it can strengthen the nonprofits involved. Although case study participants generally were not able to point to hard evidence of how they directly profited from their consolidation, many felt strongly that it resulted in financial savings, increased or improved client services, sharing of expertise, improved staff benefits and enhanced organizational reputation. These findings are confirmed by reports from La Piana Associates' consulting clients. We explore these benefits briefly below.

About half of the organizations we studied went into strategic restructuring with the hope of saving money. And indeed, three of our six case studies reported meeting this expectation. Cost savings primarily resulted from volume buying and sharing employees. Another source of cost savings was staff reduction, which occurred mostly through attrition rather than layoffs.

The smaller organizations involved in two of our cases saw an *increase* in operating costs as a result of their partnerships. Entering into the partnerships raised their facilities expenses. However, without the consolidation, these costs may still have escalated and may even have become prohibitively high. For them, strategic restructuring was not intended to reduce current costs but to temper future increases in expenses.

None of the partnerships we studied were old enough to demonstrate consistent savings over time. We would want to look at partnerships that have endured for 10 to 20 years (and compare them to similar organizations that have not engaged in partnerships) to get a better idea of the long-term effects of strategic restructuring on organizational costs. Additionally, the cost of reducing staff is difficult to assess in the short term. Middle- and senior-level managers often report increased stress in their jobs as a result of their partnership experience because strategic restructuring often requires them to take on more work (e.g., doing the accounting for several organizations or for a larger consolidated organization without additional staff support). Thus, over the long term, strategic restructuring might sometimes result in higher staff turnover.

In addition to cost savings, combining resources through partnerships allowed some of the organizations we studied to hire and share more experienced staff members than they could have attracted on their own. Additionally, perhaps the most easily discernable benefits of strategic restructuring are the improved compensation and greater career opportunities afforded staff members as employees of a larger entity. Size also meant job security to staff members who feel that the partnership made their organization stronger and more likely to grow.

Finally, improved organizational reputation was a benefit reported by some people we interviewed. By increasing size, organizations can attract more attention and may have more resources to dedicate to marketing activities. They also can benefit from associating with organizations and executive directors who have good reputations among various audiences.

Question 3

What pressures lead nonprofits to consider strategic restructuring, and what prevents them from bringing these efforts to fruition?

In 1996, the key informants for *Beyond Collaboration* saw a number of shifts in the nonprofit environment that could prompt nonprofits to consider strategic restructuring. These included economic pressures (such as devolution, competition from for-profit and government institutions, and managed care policies), more nonprofits competing for funds and an aging population of experienced nonprofit managers and staff members. The original study also noted that autonomy issues and cultural clashes can jeopardize the formation and maintenance of partnerships. Over the past five years we have learned a great deal more about these and other motivations and challenges of strategic restructuring.

Motivations

Staff members, board members and funders we interviewed described many reasons for embarking on their partnerships, but four motivations were expressed more often than others:

- to maintain funders' support,
- to save money,
- to capitalize on partner organizations' leadership, and
- to preserve or enhance their organization's reputation.

In our many contacts with executive directors, staff members, board members and, in some cases, funders themselves, we have heard that funders are concerned about efficiency. Public agencies are looking for ways to reduce the cost of contracting with nonprofits by trimming the number of contractors. Private funders — faced with funding requests from many nonprofits providing similar or complimentary services — often feel organizations can operate more efficiently if they work together.

> When an organization cannot find or afford staff members with the experience, connections and skills that it needs, one option is to take advantage of the leadership of another organization.

Many nonprofit leaders we have interviewed felt that, although they may experience temporary upswings in funding due to interest in their cause, they must save money to withstand slow periods and attend to funders' increasing interest in cost-effectiveness.

When an organization cannot find or afford staff members (particularly senior staff) with the experience, connections and skills that it needs, one option is to take advantage of the leadership of another organization. Interest in sharing staff was a strong motivation in several of the partnerships we have either studied or facilitated. This interest arose, in some cases, from a sense that skilled, experienced nonprofit executives are in short supply. For example, when Every Woman's House, a women's shelter in Wooster, Ohio, went through three executive directors in three years, they finally turned to a highly respected director of a local substance abuse agency who agreed to become its part-time director while remaining the director of her own organization. For several years, the director has provided leadership to both organizations.

Some organizations want to demonstrate, often to their funders, that they are creative, collaborative and efficient by forming partnerships, thus boosting their organizational reputation. In some partnerships, organizational leaders hope that some of their partners' positive reputation will "rub off" on them.

Challenges

Major challenges of successfully implementing a strategic restructuring, according to people we have interviewed, include the following:

- lack of board and staff support,
- staff turnover,
- leadership problems,
- organizational cultural differences, and
- identity issues.

Strategic restructuring exacts a significant toll on staff. Even in successful partnerships, management staff below the executive director often experience workloads that grow heavier as partnerships develop. We have found that management we interviewed felt most impacted (and often most burdened) by strategic restructuring:

- 57 percent of management staff reported a change in title as a result of the partnership, compared to 29 percent of executive directors and 14 percent of other staff.
- 59 percent of management staff reported a change in job responsibilities, compared to 32 percent of executive directors and 9 percent of other staff.
- 62 percent of board members and 73 percent of executive directors rated their partnerships as successful or very successful, compared to 53 percent of management staff.
- Management staff were the least personally satisfied of the three groups: 47 percent said they were satisfied or very satisfied with the partnership, compared to 73 percent of executive directors and 64 percent of board members.

It is important to note that these figures could result in part from the fact that more than 50 percent of the senior staff interviewed were associated with merger and joint venture cases, which were less successful than other partnerships studied. However, the results remain the same. Although most partnerships do not result in many layoffs, some middle management employees chose to leave due to increased pressure or the changing nature of their jobs or organizational cultures. When certain functions are consolidated, the middle managers in charge of those functions often find their range of responsibilities greatly increased. Whereas they were once in charge of accounting, fund-raising or computer services for one organization, they are now responsible for that function for several organizations or for a larger merged organization. Without adequate staff support, their jobs can become quite stressful. Yet even with this increased pressure, we found that most of the staff in the partnerships we studied stayed in their jobs.

Some partnerships do form, at least in part, to reduce staffing costs; yet even in those cases, staff reductions typically occur with minimal lasting effects. Indeed, only seven out of 65 interviewees in our national study described staff turnover as a challenge (although more employees, particularly middle managers, spoke of the stresses involved in strategic restructuring). In our earlier survey of 192 nonprofits with strategic restructuring experience, only 10 percent indicated that layoffs posed a significant problem. However, because layoffs are highly visible in corporate mergers, many facing strategic restructuring in the nonprofit world have concerns about this possibility.

Some turnover can be an indirect effect of consolidation. Strategic restructuring can lead to changes in leadership, which in turn leads to changes in philosophy or structure, which finally can result in voluntary and involuntary staff turnover within organizations. Some staff leave after consolidation not because of a new supervisor with a new style, but because the organization itself has changed and is no longer the type of place they want to work. Others cannot handle the increased workload or working across organizations. Based on the partnerships we have studied, we expect that most partnerships, but certainly not all, do involve increased workloads for some employees.

Many concerned leaders struggle to strike a balance between strong, authoritative decision-making and responsiveness to staff members' desire for inclusion — both of which are important in making partnerships work.

Despite "no layoff" declarations by some executive directors, some staff members may also become concerned that their organizations eventually will need to reduce staff size in order to realize economies of scale. It is interesting to note these fears given that, for the most part, layoffs are minimal in nonprofit restructurings. Additionally, as noted above, some staff members feel more secure in their jobs if they feel that strategic restructuring has allowed them to work for a larger entity that may be more stable in terms of its funding and offer more avenues for them to move up in the organization.

Although staff turnover is not as great a cost of strategic restructuring as might be expected, staff changes (due to other causes) create challenges. Strategic restructuring seems to be less about alliances among organizations than ties among people. Often partnerships rely on the vision and diplomacy of only one or two individuals. When more people are involved in and committed to a partnership, the relationship may be more durable. Thus organizations that keep staff informed about their partnerships and work to gain their support and input, may have a better chance of seeing their partnerships endure.

Understandably, a host of leadership problems arise in strategic restructuring partnerships. Many concerned leaders struggle to strike a balance between strong, authoritative decision-making and responsiveness to staff members' desire for inclusion — both of which are important in making partnerships work. To avoid damaging staff morale with the appearance that one organization is dominating the other, some partnerships take pains to share leadership. Co-executives, co-board chairs, and even co-committee chairs are sometimes suggested during negotiations for various types of partnerships. The outcome, however, of efforts at shared leadership is often a lot of confusion about who *really* is in charge of what. And even when everyone agrees on who is in charge, staff members often have trouble adjusting to the differing management styles of leaders in their partner organizations. Additionally, leaders sometimes have trouble adjusting to managing larger organizations and addressing the concerns and skepticism of staff members.

Based on our research and experience, it seems that in every strategic restructuring partnership, people experience cultural differences and clashes between organizations. "Cultural differences" is a catchall term referring to a variety of problems. An organization's culture is some combination of policies and procedures, professional philosophies, employee dress, meeting frequency and attendance, and the types of relationships that exist between and among management and staff. However, for most people, the most important aspect of culture is the way in which decisions are made: Who is informed about decisions? Who is included in making them? Who has access to decision makers? How long do decisions take? Are decisions made behind closed doors? Through consensus, vote, or by executive fiat? Who are the real decision makers?

Despite (or maybe because of) the pervasiveness of organizational culture, it tends to be invisible to an organization's staff and board until it butts up against another culture. Because of culture's invisibility prior to consolidation, many clashes emerge unexpectedly. Some individuals guess (or hope) that because their organizations served similar clients, or because they shared similar approaches or philosophies in their work, cultural differences will not be a problem. But despite such similarities, other less obvious aspects of culture inevitably clash.

It is important to note that although cultural *clashes* must be addressed, cultural *differences* do not necessarily represent problems in need of solutions. As long as differences are recognized and respected they can add life to an organization.

Another challenge is dealing with identity issues. Strategic restructuring can be, and often is, a counter-intuitive step for organizations that spend much of their energy and time focused on maintaining their identity. By doing so, they build loyalty both inside and outside the institution. Full consolidations require stakeholders to transfer that loyalty to a new institution. Partial consolidations ask them to somehow divide their loyalty. Organizations avoid such difficult situations unless they feel they have vital reasons for confronting them.

The identity challenge relates to, but transcends, cultural issues. Whereas culture is mostly an internal concern, organizational identity is an asset in the external world. It attracts staff, board members, clients and funders. Some people liken the power of organizational identity to what the corporate world calls "brand loyalty." The most visible symbol of an organization's identity is its name, and often the most heated battles in strategic restructuring occur over name changes.

Question 4

How can funders encourage nonprofits to undertake strategic restructuring without being perceived as applying pressure to do so?

Beyond Collaboration recommended that funders suggest their grantees think carefully about their mission and external realities, provide access to tools and then let the notion of consolidation "dawn from within." It also suggested that funders sponsor educational activities and be ready to assist organizations that choose strategic restructuring.

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Over the past five years we have found that interest in maintaining funders' support is a primary reason organizations pursue strategic restructuring. Given the importance of this concern, it may not be realistic for funders to believe they can suggest and educate without their grantees feeling some pressure. Indeed, we know of several partnerships in which the organizations did not receive any direct messages about consolidation from their funders. Yet they acted on their own finely honed instincts about what funders might want.

In the national study, we asked 20 leaders in the sector (see Appendix, page 21, for a list) to reflect on our findings and then talk about the best role for funders to play vis-à-vis strategic restructuring.

Twelve of the leaders felt many funders were pressuring nonprofits to consolidate, but few were offering help in planning and implementing partnerships. From their point of view, obstacles, such as personality clashes between executive directors, can undermine otherwise productive alliances. Several also noted that partnerships may require startup funding for costs such as an extra staff person or a new database system, which funders should be willing to support.

Half of the leaders felt funders should be careful not to pressure nonprofits to try strategic restructuring. Their perspectives ranged from a belief that funders could encourage with resources and information while not forcing consolidation, to a belief that only a completely hands-off stance is appropriate. "We fly at 35,000 feet," noted one leader who is also a funder. "We never get so close to an organization's operations where we can say with authority that we know that it would be better if this organization were merged with that one."

Nine leaders felt there was a great need for further research. One, for example, noted that longitudinal research on strategic restructuring will help funders to know what is a reasonable time frame for a partnership to become fully integrated, and therefore how long it will need startup costs. Another suggested that funders support evaluations of partnerships to gain further understanding of their costs and benefits. With more empirical knowledge of strategic restructuring, funders might have a better sense of when they might encourage nonprofits to consolidate and what types of partnerships they might recommend.

Eight leaders maintained that funders should pay more attention to the effects of partnering and of organizational closings on the sector as a whole. Some stressed that the needs of clients — rather than organizational survival — should guide conversations about strategic restructuring. This concern led to two contrasting recommendations. One group felt services are more accessible and responsive to clients if they are provided through small organizations, whereas another felt that fewer, larger organizations can deliver more services to clients because they are more efficient.

Question 5

What educational activities can funders promote to encourage strategic restructuring activities such as mergers, consolidations and joint ventures?

We learned from *Beyond Collaboration* in 1997 that strategic restructuring practice is ahead of research and that nonprofits could benefit from more information on new organizational forms, best-practice guidelines, and success factors related to consolidations. *Beyond Collaboration* also called for more research on the effects of mergers on ethnic and minority communities, social and artistic diversity, and community access to services. The key informants of that study also agreed on a need for more case studies, critical reviews of successful innovations, general articles, scholarly articles, full-length practical books and workbooks on strategic restructuring. Finally, they felt a network of local partners — such as community foundations and management support organizations — could sponsor workshops for nonprofit leaders, training of consultants and direct financial support for expenses related to strategic restructuring.

Over the past five years, the foundation-funded Strategic Solutions project has addressed many of the above concerns by developing and disseminating practical resources to nonprofits, consultants and funders. The project has advanced both practice and knowledge in the sector in the following ways:

- Conducting various research studies on strategic restructuring, including the national study, as well as several additional ongoing efforts.
- Creating the Strategic Solutions Web site (www.lapiana.org), a compendium of articles, case studies, practical tips and links to research at other locations. This site is heavily used, receiving more than 2,000 unique visitors every month.
- Developing a three-phase training program for management consultants interested in learning how better to facilitate and advance strategic restructuring partnerships. Between 1999 and 2002, there were 275 consultants who received training through 20 training programs held in five states.
- Disseminating information, such as that contained in this report, to more than 6,000 nonprofit leaders and funders at more than 100 presentations, keynotes and workshops all over the United States.
- Publishing *The Nonprofit Mergers Workbook*, a practical guide to developing a partnership among nonprofits.
- Writing a companion book to the mergers workbook — a guide to creating a merger implementation plan.
- Facilitating dozens of strategic restructuring partnerships in every field, around the country.
- Partnering with community foundations, management support organizations and other local partners to create greater channels for dissemination of information regarding strategic restructuring.

Successful Strategic Restructuring

Although we believe that practice continues to be ahead of research, the national study and, more generally, the work of Strategic Solutions have helped funders, nonprofit managers, board members and consultants make more informed decisions regarding strategic restructuring. We have learned some of the most important success factors in strategic restructuring partnerships include

- research and planning,
- openness and communication,
- trust, and
- strong staff teams.

Research and Planning. The importance of planning came through in several of our case studies. Anyone considering strategic restructuring should first explore all options and their implications. Indeed, several people questioned whether their organizations would have proceeded with strategic restructuring had they done more research into the potential costs and how they stacked up against anticipated benefits. A thorough consideration of how a partnership will or will not advance the partners' missions might help them to make better decisions about whether and how to move forward. Involving staff and board members in this effort is also a good way to inform the consolidation process and secure their support.

After this research has been conducted, organizations should set realistic, clearly defined and widely understood (among staff and board) expectations for the partnership. The ramifications of the partnership for specific departments and individual staff members should be clearly communicated. By doing so, organizations will more easily win the support of key stakeholders.

Openness and Communication. Exposing the truths about your organization and that of your partner(s) may not be pleasant, but it is imperative to the success of strategic restructuring. Individuals need information to convince them to join in a change process, and then to coordinate work across organizations. At some point one or more people — usually the executive director(s) — need to show everyone where the partnership is going and lead the organization(s) in that direction. Discussion without leadership (action) can be just as frustrating to staff, and to the partnership itself, as autocratic rule.

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Trust. We have learned that when organizations see their partners as competent, open, concerned and reliable, trust grows, and it appears to grow more quickly with more opportunities for stakeholders in each organization to get to know each other. If trust does not develop, we have seen countless examples of partnerships that either fail outright or do not achieve the benefits all the parties had hoped for.

Strong Staff Teams. Most often, an executive director or other leader of partnering groups plays the role of "champion" for the process. The progress of the partnership relies on the champion's ability to

- bring parties together,
- facilitate hard decisions,
- win the respect of partner organizations,
- tolerate conflict,
- work toward mission-focused rather than ego-based decisions,

- work many hours, and
- obtain and value input from staff.

It is also key to have flexible staff members who have faith in their leaders and can thus develop faith in the partnership. These attitudes are particularly important when the partnership is still relatively new and systems of cooperation have not yet been well established.

Funder's Challenge

In *Beyond Collaboration*, funders were encouraged to

- take a broad view of what nonprofits need, looking at strategic restructuring among a range of options;
- consider supporting research and development, documentation and dissemination and direct assistance in the area of strategic restructuring; and
- take an active role in helping organizations improve their capacities.

Our research and work with nonprofits over the last five years have confirmed the importance of these suggestions and added several more to the list. We now suggest that funders also do the following:

- **Encourage grantees to investigate the potential for cost savings or other benefits from strategic restructuring before embarking on such a partnership.** Funders should not assume that consolidation alone helps an organization advance its mission. This consideration may require extra grant funds or education on the importance of assessing the potential of the partnership.
- **Fund long-term evaluations that focus on costs and benefits.** To our knowledge, no short- or long-term comprehensive cost-benefit analyses of strategic restructuring partnerships have been conducted. Although some efforts have focused on assessing changes in financial statements or stakeholder perspectives, none have monetized the value of the time spent on planning and maintaining partnerships and of cultural clashes and their impact on staff turnover and morale, among other common challenges of strategic restructuring.
- **Support research and education focused on postconsolidation integration challenges.** We have found little evidence of funder attention to essential issues that arise after a partnership is launched — issues that, if handled poorly, can threaten the value of strategic restructuring. Such challenges include integration problems, cultural clashes and strategic planning for a shared future. New research and the forthcoming implementation planning workbook from the Strategic Solutions project will advance both knowledge and practice in this area, but making the partnership work will remain the area of greatest challenge for a long time to come.

Conclusion

Given the knowledge we have acquired over the past five years, it is clear that strategic restructuring is a widespread phenomenon in the sector. It is also clear that nonprofits find many and varied ways to apply the strategic restructuring tools that have been developed as aids to advancing their missions. In difficult times such as those projected for the next several years — with the potential for further federal tax cuts combined with state and local budget crises and extra spending on homeland defense and the War on Terrorism — nonprofits will likely look even more frequently to partnerships with one another as a way to strengthen and preserve their essential work.

Funders have played a pivotal role in the development of and dissemination of information on these options to nonprofits over the past five years. They have funded the research and development efforts we have just reviewed and have sponsored conferences, training opportunities, a Web site and publications that have directly reached thousands of nonprofit leaders. This work is significant, but so are the challenges ahead. As funders consider how to strengthen the organizational capacity of the nonprofits they support, we suggest that they consider what we know about strategic restructuring and how it might help grantees to survive and thrive as they pursue their missions.

Appendix

Participants in national interviews

Alan J. Abramson, *Director, Nonprofit Sector Research Fund, Aspen Institute*

Audrey R. Alvarado, *Executive Director, National Council of Nonprofit Associations*

Elizabeth T. Boris, *Center Director, Center on Nonprofits and Philanthropy, The Urban Institute*

Jeffrey L. Bradach, *Managing Partner, The Bridgespan Group*

Peter C. Brinckerhoff, *Trainer, Author and Consultant, Corporate Alternatives Inc.*

James V. Denova, *Senior Program Officer, Claude Worthington Benedum Foundation*

Sara L. Engelhardt, *President, The Foundation Center*

Virginia Hodgkinson, *Research Professor and Director, Center for the Study of Voluntary Organizations and Public Service, Georgetown Public Policy Institute*

MaryAnn Holohean, *Program Director, Nonprofit Sector Advancement Fund, Eugene & Agnes E. Meyer Foundation*

Barbara Kibbe, *formerly Program Director, Organizational Effectiveness and Philanthropy, David and Lucile Packard Foundation*

Christine Letts, *Lecturer in Public Policy and Associate Director, Hauser Center for Nonprofit Institutions, Harvard University*

Jan Masaoka, *Executive Director, CompassPoint Nonprofit Services*

Sara E. Meléndez, *formerly President, INDEPENDENT SECTOR*

Dorothy S. Ridings, *President and CEO, Council on Foundations*

Mark Rosenman, *Vice President, The Union Institute, Office for Social Responsibility*

William Ryan, *Research Fellow, Hauser Center for Nonprofit Institutions, Harvard University*

Lester Salamon, *Professor, Institute for Policy Studies, Johns Hopkins University*

Benjamin Shute, *Secretary and Treasurer, Rockefeller Brothers Fund*

Elizabeth Skidmore, *Division Director, National Center for Consultation and Professional Development, Child Welfare League of America*

Eugene R. Tempel, *Executive Director, Center on Philanthropy at Indiana University*

About the Authors

David La Piana is founder of La Piana Associates Inc., a consulting firm specializing in strategic solutions for nonprofit organizations. He has taught at the University of San Francisco's Institute for Nonprofit Organization Management and at the Haas School of Business at the University of California, Berkeley. He has worked on more than 65 mergers with more than 200 organizations nationwide, as well as dozens of other cases of strategic restructuring.

In addition to numerous articles, David authored *Nonprofit Mergers: The Board's Responsibility to Consider the Unthinkable* (1994), *Beyond Collaboration: Strategic Restructuring of Nonprofit Organizations* (1997), *The Nonprofit Mergers Workbook* (2000) and *Real Collaboration: A Guide for Grantmakers* (2001). He also co-authored *Strategic Restructuring: Findings from a Study of Integrations and Alliances Among Nonprofit Social Service and Cultural Organizations in the United States* (2000) and *Strategic Restructuring for Nonprofit Organizations: Mergers, Integrations, and Alliances* (2002).

Prior to becoming a full time consultant, David worked for more than 20 years as a nonprofit staff member, executive director, trainer, consultant and board member. A former VISTA volunteer, he has held senior management positions with the YMCA, The International Institute and East Bay Agency for Children, a multifaceted human services agency which grew tenfold under his leadership.

Amelia Kohm is a researcher at Chapin Hall Center for Children at the University of Chicago. She directed the National Study of Nonprofit Strategic Restructuring and co-authored *Strategic Restructuring: Findings from a Study of Integrations and Alliances Among Nonprofit Social Service and Cultural Organizations in the United States* (2000) and *Strategic Restructuring for Nonprofit Organizations: Mergers, Integrations, and Alliances* (2002). She has published articles and papers and given presentations around the country on strategic restructuring.

Amelia has also directed research projects and published reports concerning arts opportunities for children in Chicago, the scope of primary supports in Chicago, and the Tutor/Mentor Connection, a Chicago-based initiative. She has worked in the philanthropic sector with The Sears-Roebuck Foundation, The Donors Forum of Chicago and The Illinois Humanities Council. She has an master's degree in social work administration from the University of Chicago.

Suggested Resources

Strategic Solutions is a five-year initiative dedicated to achieving a major and lasting positive impact on the nonprofit sector's perception, understanding and use of strategic restructuring. For more information, visit www.lapiana.org.

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