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Nonprofit Breakfast Discussion
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Strategic Restructuring in Difficult Times

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Why Discuss Restructuring?

- Mission-Focused Opportunities
  - partnering with other nonprofits can be a cost-effective vehicle for a charity to advance its mission by enhancing existing programs &/or expanding operations
- Financial Necessity
  - decreased governmental, foundation & donor funding
  - increased operational costs & competition between charities
- Demand for Professionalism/Accountability/Transparency
  - increasingly complex regulatory requirements require more efficiency & enhanced administrative infrastructure

Restructuring Benefits

- Cost Savings—combined staffing fosters less duplication of services, increased administrative efficiency, reduced overhead costs, operational savings through more affordable insurance, employment benefits, etc.
- Increased Capacity—enhanced efficiency enables staff to focus on existing programs, tackle new tasks &/or consider new organizational opportunities
- Sustainability & Long-Term Solvency—alleviation of financial pressures sets foundation for future success

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Restructuring Considerations

- Mission Compatibility—success more likely for nonprofits with missions similar to or that compliment one another
  - Familiarity—facilitates faster, better informed decisions
- Organizational Compatibility—comparable board dynamics & staff cultures/salaries help with seamless transitions
  - Leadership—board/staff leadership changes often occur
- Reward Goals—it can take years to fully recognize benefits
- Solvency—financial troubles weaken negotiating positions
- Expectations—restructuring can't solve every problem—two sinking ships generally don't make a boat that floats

Key Starting Principles

- Remember, a nonprofit is a means, not an end
  - don't let tradition (or nostalgia) impede progress
- With restructuring, proper form always follows function
- Due diligence assessment is essential & legally required
- Proactively involving regulatory agencies/funders is critical
  - reach out to state agencies, State Ed. &/or the AG's Office
  - state/private funders often have a good deal of influence
- The lesser collaboration, the lesser the risk & reward, the greater the collaboration, the greater the possible savings & reward, but the greater the risk & loss of autonomy

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Collaboration & Restructuring

- Collaboration

  Mutually beneficial, often semi-formal relationship involving moderate risks & possibly some loss of autonomy

  - Strategic Alliances - coordinating programs so as to not unnecessarily duplicate services or compete for funding
  - Collaborative Ventures – sharing space, services, etc.

- Restructuring

  Ongoing, structured collaboration, involving real risk & potential loss via combined services/resources/programs, such as Joint Ventures, Subsidiary Relationships or Merger

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Contractual Restructuring

- Shared Service Agreement
  - one organization agrees to provide management or technical assistance to another on a fee-for-service basis
- Parent-Subsidiary Relationship
  - one organization assumes control over another, often for purposes of managing affairs, segregating assets or minimizing liability exposure
- Joint Venture
  - two or more organizations develop another corporation for specific purposes—i.e. management service organizations

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Statutory Restructuring

- Merger
  - two or more organizations combine assets & liabilities by becoming one entity
- Consolidation
  - two or more organizations dissolve & transfer residual assets to a new surviving corporation
- Dissolution & Transfer
  - one or more organizations dissolve & transfer residual assets to an existing corporation

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Further Questions

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