Hang on, Merge, Close: Making Tough Choices During a Crisis

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Presented by:
Bob Harrington
Partner Emeritus
La Piana Consulting
Agenda

Options & Assessment  Drill Down  Strategies  Taking Action
Your Options

Our partners at Seachange define three types of nonprofits in this crisis

**Hibernators**
must close down during the crisis because their services cannot be provided

**Responders**
may see demand and expenses increase for their particular services

**Hybrids**
have elements of both
La Piana Consulting surveyed our social sector contacts, receiving more than 750 responses to our March and April surveys. The results paint a compelling picture of the impact of COVID-19.

- Over the last two months, 91% of respondents have been forced to curtail services or adapt how they provided them.
- 80% of respondents have moved some or all of their programs to an online or other digital delivery method.
- Respondents have laid off or furloughed 18% of their staff, on average.
- Respondents have moved an average of 83% of their operations to a work from home arrangement.

The dramatic losses the sector experienced in March continued through April.
Survey Results

69% of responding organizations have applied for a CARES ACT PAYCHECK PROTECTION PROGRAM LOAN RANCING BETWEEN $5K AND $6.8M.
FEWER THAN HALF HAVE RECEIVED FUNDING.

THE PANDEMIC IS HAVING A DEVASTATING EFFECT ON REVENUE:

<table>
<thead>
<tr>
<th>Month</th>
<th>Revenue Change</th>
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<tbody>
<tr>
<td>March</td>
<td>Increase 30%</td>
</tr>
<tr>
<td>April</td>
<td>Decrease 10%</td>
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90% of organizations experienced revenue loss compared with 70% in March.
Only 10% of organizations experienced a revenue increase, down from 30% in March.

NEARLY A QUARTER OF RESPONDENTS ARE CONSIDERING PARTNERSHIPS, SUCH AS MERGER WITH ANOTHER NONPROFIT, AS A STRATEGY FOR RESPONDING TO THE PANDEMIC.
Answer truthfully, no wishful thinking:

What services can we continue offering in this environment?

Can we adapt our services or pivot to do something else?

What impact is this having on our revenue?

Do we have reserves to draw on?

How long can we survive like this?

Should we partner with others?
Based on your analysis develop a strategy:

One or more options with defined triggers (financial, or elapsed time). For example:

- If we get to (Date) and have not reopened, we will take these actions
- If revenue drops below $X we will commence layoffs
- We can see the trajectory we are headed on and need to begin acting now
You might select this strategy if you:

- can continue operating at a sufficient level to cover costs
- can reduce costs (hibernate) and are confident of a return to normal
- have sufficient reserves
- were healthy and strong before COVID-19
- can manageably furlough employees and then bring them back
- can adapt services or pivot to deliver those services for which the need has increased
You might select this strategy if you:

- will run out of cash at a defined point, leaving you unable to make payroll
- were on the edge of sustainability before COVID-19
- prioritize acting responsibly toward employees, vendors, and the community
- Have one or more programs that can survive but the organization cannot
- Have in mind a potential partner that is either stronger or complementary (you are both stronger together)

**Remember, you cannot pursue your mission if you Go out of business!**
You might select this strategy if you:

- will run out of cash at a defined point, leaving you unable to make payroll
- were on the edge of sustainability before COVID-19
- Can identify assets/programs to transfer to a surviving organization
- prioritize acting responsibly toward employees, vendors, and the community

*Remember*: the #1 reason any organization goes out of business is a lack of cash
Make Your Decision
Taking action sooner gives you more options

Effective Leadership in a Crisis: Adaptive, Decisive, Inclusive

Form a board/management committee to consider your options

Appoint a crisis coordinator if the CEO is overwhelmed with day-to-day

Ban wishful thinking: bring facts and numbers to all meetings

Get help: from funders, board members, advisors

Take care of yourself: stress makes for poor decision making
Partnership or Merger
The Collaborative Map

- Collaboration
- Alliance
- Strategic Restructuring
Collaboration

- Coordinated Action
- Joint Advocacy
- Collaborative Learning
- Network
Alliance

- Administrative Consolidation
- Fiscal Sponsorship
- Joint Programming
- Joint Earned Income Venture
- Affinity Group
- Coalition, Consortium, and Association
Strategic Restructuring

- Joint Venture Corporations (including MSOs)
- Parent-Subsidiary Structure
- Merger or Acquisition
The Strategic Restructuring Process
The Process

- Assessment
- Resolution
- Negotiation
- Agreement
- Implementation
  - Legal Resolution
  - Integration
## Process – Assessment

<table>
<thead>
<tr>
<th>Self Assessment</th>
<th>Identifying Potential Partners</th>
<th>Assessing Potential Partners</th>
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<tbody>
<tr>
<td>Factors to Assess:</td>
<td>Which organizations are closest to you?</td>
<td>Level of trust</td>
</tr>
<tr>
<td>- Motivators</td>
<td>- Offer same/similar programs/services</td>
<td>- Past experiences</td>
</tr>
<tr>
<td>- Desired outcomes</td>
<td>- Have geographic or “consumer” overlap</td>
<td>- “Usable” skills and assets</td>
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<tr>
<td>- Critical issues</td>
<td>- Seek funding from the same sources</td>
<td>- Cautions and challenges</td>
</tr>
<tr>
<td>- Organizational factors or “red flags”</td>
<td>- Compete for media attention, staff, or board members</td>
<td>- Mission and program compatibility and complementarities</td>
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<tr>
<td>- Financial assessment</td>
<td></td>
<td>- Financial condition</td>
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</tbody>
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## Negotiation Process

<table>
<thead>
<tr>
<th>Issues to Negotiate</th>
<th>What takes place</th>
<th>Due Diligence</th>
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</thead>
<tbody>
<tr>
<td>Governance</td>
<td>Prepare for and facilitate negotiations</td>
<td>What is it?</td>
</tr>
<tr>
<td>Financial</td>
<td>Track agreements</td>
<td>▫ Financial</td>
</tr>
<tr>
<td>Human Resources</td>
<td>Financial Due Diligence</td>
<td>▫ Legal</td>
</tr>
<tr>
<td>Capital</td>
<td>Communication strategy</td>
<td>What is needed?</td>
</tr>
<tr>
<td>Programmatic</td>
<td>Crisis management</td>
<td></td>
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<tr>
<td>Communications</td>
<td>Coordination with attorneys</td>
<td></td>
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<td></td>
<td>Debriefs and Board presentations</td>
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Negotiation Process

Corporation A
Board of Directors

Negotiations Committee
Tasks:
- Negotiation of Issues
- Due Diligence Process

Corporation B
Board of Directors

Decision

Implementation

Integration

Corporation A
Board of Directors

Decision
Implementation Process

Planning
- Develop operational and program plans
- Strategic plans
- Business plan
- Change management & Culture

Legal Resolution
- File with state and/or formally approve
- Approve
- Begin operating as partners

Integration
- Systems
- Administrative
- Programmatic
- People & Culture
Integration Pitfalls

Mergers do not fail because organizational leaders can’t integrate their financial systems or IT…

Mergers can fail because people tend to hold onto their individual cultures and identity rather than create a new organization.
Cultural Integration

- Be intentional about the process
- Maintain two-way communication
- Celebrate successes
- Resolve disagreements immediately
- Make communication/decision-making style explicit
- Monitor internally and externally
Achieving Success
Understanding Roadblocks

- Autonomy Concerns
- Lack of Trust
- Self-Interest
- Organizational Culture
Leadership

- Board integration factors
- Board size
- Choosing officers for Day One
- CEO/Executive Director selection factors
- A role for each or someone leaves?
- Integrating management teams
- Integrating staffs
Cost and Timeline

Three Types of Cost:

- Facilitation, due diligence and deal-making
- Legal execution of the deal
- Integration of people and systems

The Timeline

- If no time pressure, 4 months is ideal
- Can move very quickly if one party is flexible
Being Prepared for Change

The process will take time

People may leave

Reach out to donors, supporters, membership early on

There are both costs and benefits (intermediate and long-term)
Summary

- There is more than one partnership option to meet your needs
- Partnerships take time and capacity
- A strong process will provide confidence and structure
- We are in a people business so don’t discount the people affected by a merger
- Clarity of purpose is important!
Dissolution:  
Closing Down Gracefully

- I was a Program Director when my nonprofit closed us down
- There is no shame in this but many lessons – learn them, fast
- Separate emotion from decision, there will be time to mourn... later
Dissolution: Closing Down Gracefully

- What can be saved – program transfer, assets, IP?
- Set priorities: staff & clients first, then vendors, creditors
- Create a timeline
Dissolution: Closing Down Gracefully

- Formal dissolution vs. “hip-pocket” dissolution
- The Board’s role
- Sooner, with cash on hand vs. later, running out the clock
- Debt
- Do you need professional help: legal, accounting, process?
Dissolution: Closing Down Gracefully

- This is terrible but it’s not the end
- The mission continues to be valuable
- The people will continue to advance the cause elsewhere
Thank you