

The Nonprofit Sustainability Initiative

Where are we, how did we get here, and where are we going?

Joanna Jackson, Director, Grant Operations

It has been two years since the California Community Foundation, The Ralph M. Parsons Foundation and Weingart Foundation launched the Nonprofit Sustainability Initiative (NSI) in April 2012. In recent months, Weingart Foundation has received a growing number of inquiries from colleagues in philanthropy and the broader nonprofit sector about where we are in the Initiative and what is on the horizon. While it is still too early for formal evaluation findings, we do want to share where we are in the work, some of our preliminary learning – particularly around a funder’s role in supporting strategic restructuring – and our thoughts about the future. It might be helpful, however, to start with why and how this Initiative was started.

The Nonprofit Sustainability Initiative supports Los Angeles area nonprofits in exploring and implementing formal, long-term partnerships and restructuring efforts that lead to greater organizational effectiveness and efficiencies.

The Development of the NSI

Helping to build and maintain the organizational capacity and effectiveness of our nonprofit partners to deliver on their mission and improve their impact is at the core of Weingart Foundation’s work. Support for strategic restructuring — the continuum of partnerships (joint programming, administrative consolidations, mergers, etc.) nonprofits engage in for greater sustainability and impact — has long been a part of the Foundation’s capacity building offerings. Nonetheless, the reality is, organizational restructuring is not something most nonprofits have traditionally been comfortable talking to funders about, particularly given the stigma around mergers and acquisitions and the perception that they are viewed as signs of weakness or failure. In addition, restructuring and partnership is time intensive and costly, and many foundations still don’t support the cost of exploring or engaging in these activities. As a result, the Foundation’s support of such projects historically remained relatively limited.

***Strategic restructuring**, a term coined by David La Piana, refers to the range of formal, long-term partnerships between two or more organizations including jointly managed programs, shared administration to mergers and more.*

However, by 2010, the effects of the recession were rapidly changing the landscape in which nonprofits operate. The financial challenges facing the sector continued to proliferate and service demand was on the rise. Weingart Foundation’s board asked management to look at how we might support greater exploration and consideration of strategic restructuring alternatives among nonprofits to increase effectiveness and efficiencies in this new environment.

During this time, our like-minded colleagues at the California Community Foundation and The Ralph M. Parsons Foundation were also considering similar ideas to support local nonprofits

interested in various forms of restructuring towards greater sustainability and effectiveness. Weingart Foundation had engaged David La Piana (a consultant nationally recognized for his expertise in nonprofit strategic restructuring) and a collective discussion among the three foundations and La Piana ensued around how we might collaboratively support more formal exploration and pursuit of strategic restructuring among nonprofits in Los Angeles County. Born out of those conversations was the Nonprofit Sustainability Initiative, which launched in the spring of 2012. The NSI is one of a growing number of regional initiatives across the country designed to support formal collaborations and partnerships including efforts in New York City, Boston, Pittsburgh, and Charlotte, N.C., among other cities.

NSI Snapshot

Phase	Date	Activities
Phase I	April 2012	Strategic Restructuring Educational Workshop hosted by California Community Foundation, The Ralph M. Parsons Foundation and Weingart Foundation held at the California Science Center – nearly 700 individuals representing over 300 organizations in attendance.
Phase II	June – December 2012	Eighty-two organizations apply to receive strategic restructuring readiness assessments and one-on-one consulting with La Piana Consulting to assess capacity and readiness to engage in strategic restructuring. Forty-four organizations are funded in Phase II.
Phase III	January 2013 – present	Thirty-nine organizations (20 from Phase II and 19 new partners) engage in consultant facilitated negotiations to form 15 strategic partnerships.

Largely modeled after the [Human Services Strategic Restructuring Pilot Project](#) in Ohio, the NSI was designed to be delivered in three phases. Phase I entailed an educational workshop on strategic restructuring in April 2012 co-hosted by the Center for Nonprofit Management and UCLA Center for Civil Society and included presentations by David La Piana and nonprofit leaders who shared their merger experiences. Phase II provided nonprofits that attended the workshop the opportunity to apply for a select number of free organizational readiness assessments and consultations. Phase III involves direct funding to nonprofits to support the cost of third party facilitated strategic partnership negotiations with a funder approved consultant of their choice.

Funder Collaborative

The NSI has grown to a collaborative of ten foundations that have contributed a total of \$2.2 million for the Initiative.

Participating Foundations

The Ahmanson Foundation	Conrad N. Hilton Foundation
The Annenberg Foundation	James Irvine Foundation

California Community Foundation*
The California Endowment
Carol & James Collins Foundation

JP Morgan Chase Foundation
The Ralph M. Parsons Foundation
Weingart Foundation

**Fiscal Agent for NSI*

Where are we now?

Phase III

Phase III provided an opportunity for existing NSI Phase II participants to apply for grants ranging from \$20,000 - \$50,000 per partnership to hire the consultant of their choice to facilitate restructuring negotiations. To date, 15 partnerships involving 39 organizations have been approved for funding to enter into strategic restructuring negotiations. All Phase III applicants were also asked to contribute their own in-kind resources toward this effort.

Outcomes to date

The scale in which the NSI was launched was quite unique. Over 700 nonprofit leaders had an opportunity to better understand how strategic restructuring could improve their capacity and impact in various ways. Since then, although it has not been formally measured, the level of discourse around collaboration and restructuring seems to be increasing throughout the greater Los Angeles nonprofit and philanthropic sector.

Focusing on the specific outcomes related to restructuring activity, the funders' expectations were quite modest given our shared philosophical approach to the work. The funders agreed that we did not want any organization to feel pressured or forced to engage in the initiative. There was also agreement that the funders would not meddle in the

negotiation process and would need to be patient as each potential partnership and negotiation followed its natural course. Lastly, we wanted to be clear that we as funders had no predetermined outcomes in mind for the nonprofits involved. As such, I believe I can comfortably share that the funders have been quite impressed with the results to date (see the chart above); especially considering the bulk of the 15 partnerships only began negotiations in April 2013.

Completed negotiations

- ❖ *Four mergers*
- ❖ *One administrative consolidation*
- ❖ *One negotiation terminated without a decision*

Negotiations in process

- ❖ *Four mergers*
- ❖ *Five administrative consolidations/joint programming*

Phase IV

Although the NSI was initially designed with only three phases in mind, an important principle shared by all of the funders was to maintain a level of flexibility that would enable the Initiative to remain as responsive as possible to the needs of the participants as the work unfolded.

As the Phase III negotiations got underway, it became clear that some of the partnerships might encounter significant costs that could present a roadblock to the successful implementation of the negotiated partnership agreement. In response, the funders agreed to add a Phase IV to the NSI. With an estimated pool of \$300,000 - \$600,000 available for this phase of work, Phase IV will provide funding to support one-time costs that could pose a barrier to the organizational

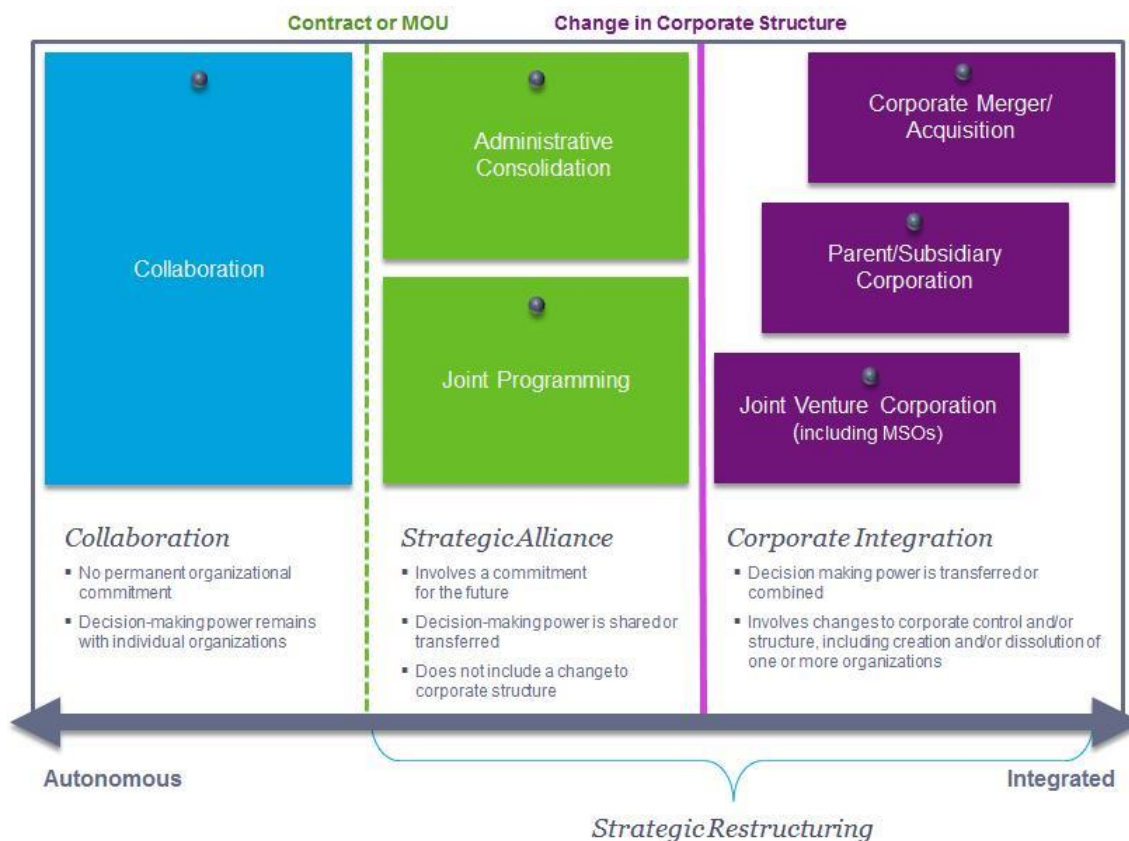
integration (e.g. severance, lease breaking, IT integration, accountant fees, board development). In January 2014, an application for Phase IV funding was provided to all Phase III grantees.

What we are learning

We have engaged a third-party evaluator to assess the impact of the NSI and help define key learnings that can be shared with nonprofits and funders on a national scale. With the Initiative still underway, it is too early for a report of definitive outcomes and lessons are still being learned. However, interesting findings are starting to emerge:

- **We need to change the narrative around “strategic restructuring” and “merger.”** Discussing, exploring or engaging in any form of strategic restructuring, including mergers and acquisitions, should not be viewed as a sign of weakness. Restructuring and partnerships can be very effective strategies, and funders and nonprofits need to be able to discuss these activities as important and powerful tools to leverage resources, expand services, increase impact and ultimately improve outcomes.
- **Funders can play a key role in opening the door to restructuring opportunities** and allow those who are interested to enter. We know forced partnerships are doomed to fail; however, providing the opportunity for exploration and engagement in this work through the Initiative — without the expectation of a predetermined outcome — was noted as the most critical factor in bringing most of these partnerships and restructurings to fruition. Many participants have stated that they would not have been able to achieve the partnership outcomes, and certainly not in this timespan, absent the support and funding from the NSI. Funders can also help expand the sector’s understanding of the full spectrum of strategic partnerships available — from back office consolidation, joint programming, joint venture corporations and more. Below is a version of the La Piana Partnership Matrix used as the tool in the NSI.

The Partnership Matrix



La Piana Consulting © 2013

- **A neutral third-party facilitator is important to the process.** Across the board, all of the organizations that have completed negotiations have shared that having a neutral and experienced third-party facilitate the negotiations was critical to staying on course and completing the process. Organizations engaged in the process cannot be expected to have the time, resources or neutrality to effectively manage what are often very sensitive and delicate negotiations between executives and boards.
- **Funders should be flexible and manage uncertainty.** I noted earlier the significance of the funders maintaining flexibility as the Initiative unfolded to support the most successful process and outcomes. It is also important for funders to allow nonprofits the space to truly explore the various restructuring options without the concern of pre-defined outcomes from funders or meddling by funders. Not all of the mergers that have concluded negotiations started the process with merger as the end goal. In fact, some started very much as exploratory discussions without a clear outcome in mind. In short, nonprofits need to have ownership of the process to fully and authentically engage in this work. We as funders need to trust the leadership of the nonprofits that we are supporting and their commitment to this work without being wedded to any particular outcome.
- **Funders also benefit from collaboration.** Foundations often expect grantees to partner and collaborate, as if it should be inherently embedded in how nonprofits operate. However, foundations do not always hold ourselves to the same expectation. Yet, collaboration done

right among foundations can yield the same positive benefits. Leveraging our resources allows us to serve more and/or go deeper with those that we serve. We benefit and learn from other funders' experience and expertise on the communities, nonprofits and issues we are facing. The collaborative can also spur greater creativity, diffuse risk and more effectively support field-wide learning.

What's Next?

With continued strong interest from philanthropy and from nonprofits, the funders have discussed the possibility of expanding the NSI to establish a second cohort of grantees. While discussions are still taking place, the results and feedback from the data collection and evaluation of the first cohort will certainly inform any effort moving forward.

Ultimately, for the long-term impact of this work, we hope the NSI begins to change the often negative narrative around “restructuring” and “mergers” as signs of weakness or options of last resort. We hope we will have created the space for more transparent nonprofit and funder discussions and the potential for an increasing number of funders to support strategic restructuring and partnerships for those nonprofits that view this as a viable strategy for greater impact, organizational effectiveness and long-term sustainability.

Given the current structure of NSI, initiative funding is not available to organizations that were not previously invited to participate in Phases II and III. However, Weingart Foundation continues to support strategic restructuring through its regular capacity building grantmaking. Please review the Foundation's Grant Guidelines for more information.

To learn more about the NSI, please contact Joanna Jackson, Director, Grant Operations, at jjackson@weingartfnd.org or (213) 688-6312.

More resources on strategic restructuring:

[Foundation Center Nonprofit Collaboration Resources](#)
[The Human Services Restructuring Pilot Project](#)