Nonprofit Decline and Dissolution Project Report

Going Out of Business

Why, When & How To Do It Gracefully

"The point at which a nonprofit organization's mission is 'to survive' is the point at which the organization should consider going out of business."

Fieldstone Alliance

Fieldstone Alliance is committed to strengthening the performance of the nonprofit sector. Through the synergy of its consulting, training, publishing, and research and demonstration projects, Fieldstone Alliance provides solutions to issues facing nonprofits, funders, and the communities they serve. Fieldstone Alliance was formerly Wilder Publishing and Wilder Consulting departments of the Amherst H. Wilder Foundation. For information about other Fieldstone Alliance publications, see the last page of this book. If you would like more information about Fieldstone Alliance and our services, please contact

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Contents

NOTE

The quotations sprinkled throughout the report are from the interviews and comments made at the public meeting held to unveil this report. We are particularly indebted to Matthew Peterson, Executive Director of Suburban Paratransit, whose truisms and pithy phrases have enlivened this report immeasurably.

Preface

Acknowledgments

This report was completed by Management Support Services (MSS) in 1991, back when it was a program of the Amherst H. Wilder Foundation. In June 2005, this program spun-off to form Fieldstone Alliance, a separate 501(c)3 nonprofit. For this reason, you'll see references to MSS.

Many people gave time to this project. The executives and board members interviewed, without exception, spoke candidly and thoughtfully of their experiences. They took us into their confidence and we are grateful for their insight and willingness to share so that others might learn from their experience. Our commitment of confidentiality does not permit us to thank them by name, however, their contribution to this project was substantial and extremely helpful.

Fieldstone Alliance Staff

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The Study Team

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Background

As the effect of reductions in government support for social programs spread throughout the nonprofit community and deeper cuts continued to be made, the skillful management of declining resources became a requirement for nearly every nonprofit. Particularly hard-hit were those organizations which grew out of the federally financed anti-poverty programs of the 60s and the social change movement of the 70s. Many of the organizations examined in the decline and dissolution study fit this description.

Since 1982 over 50% of the requests for assistance to Management Support Services have been from nonprofit organizations seeking help with strategic planning. In many cases these requests emerged out of a need to have an orderly process for evaluating and making decisions about: whom to serve, what level of service to provide, how to finance services, what staffing pattern fit the service delivery model, how will the board and staff interact in the organization and the most fundamental question of all, what should the mission be? In other words these organizations were asking, "How can we redesign our services and financing strategy to fit the community we serve and the current economic climate?"

In early 1986, Management Support Services began to hear some boards and staff wrestling with a more basic question: ***"Can we and should we continue to exist? "*** Local foundation staff began to express a similar sentiment: "We think that some of our grantees ought to consider a merger or closing. We don't want to pull the rug out (defund them) but we question the need for the service and the viability of the organization."

As MSS began to help organizations evaluate merger and dissolution options we found several recurrent issues which ultimately prompted this study:

- Executives who were experiencing tremendous stress, shame and isolation.
- Boards who had become paralyzed and indecisive.
- Staff who were anxious and uncertain about their future and worried about the future of their clients.
- A lack of reference materials or printed information to help guide an organization through the decision-making dissolution process.

As we continued to speak to funders, consultants and nonprofit executives about the issues of dissolution we heard growing consensus. These were important and yet poorly understood elements of an organization's life cycle. Furthermore, many people speculated that the full brunt of government funding cuts had yet to be felt in many corners of the nonprofit community. Nonprofit executives told us that belt tightening had gone as far as it could and the organization faced still further cuts. We concluded that the dissolution of nonprofits was an issue of increasing concern and worthy of investigation.

Project Overview

The Study Process

The study process used by MSS had four main components:

1. Semi-structured interviews with 17 nonprofit organizations in order to gain a general understanding of:
   - the ***issues*** that the organizations faced when they contemplated going out of business,
   - the ***decisions*** that the organizations' leadership had to make and how they made them,
   - the ***process*** that was used for dissolution,
   - the ***impact*** on clients and other constituents, and
   - any ***advice*** that the managers might have for others going through the dissolution process.

   In order to be included in the sample an organization had to have:
   - been active for a continuous period of at least two years, and
   - ceased to exist or operate as an autonomous organization, or
   - experienced at least 50% reduction in size, or
   - closed one entire program.

   All seventeen organizations in the sample met the first two criteria.

2. Review of the current literature to determine if there was any relevant published material which could be helpful to organizations considering dissolution.

3. Research by the law firm of Briggs and Morgan to clarify the process for dissolution of a nonprofit organization in Minnesota and to identify legal obligations of the organization regarding the dissolution and winding down of the corporation's business. A complete legal report is published separately and is also available from MSS.

4. Interviews with representatives of the Secretary of State, Attorney General's Office, Charities Review Commission and the Internal Revenue Service to determine the regulatory and oversight obligations of those government agencies.

Interview notes were analyzed for patterns, concepts and issues which emerged frequently. The literature was similarly analyzed. A draft report of this document was then developed and circulated to several reviewers for input and comment. This report is based largely on empirical rather than quantitative data. It is intended to stimulate discussion among nonprofits, funders, consultants and other interested parties. It is not our intent to either discourage or encourage dissolutions, but rather to create a climate in which dissolution can be considered and managed in thoughtful and responsible ways.

Project Objectives

1. Increase awareness and public discussion of nonprofit decline and dissolution

2. Design and deliver a public seminar at which findings are presented and the public discussion begins.

3. Prepare and disseminate a set of materials which provide information about the decline and dissolution of nonprofits.

The Interview Sample

- 17 organizations
  - 12 social service
  - 5 arts/cultural
- 28 interviews
- $100,000—$2 million operating budget
- 3-15 years old
- 0-45 staff

MSS believes that by learning from our colleagues and beginning a public discussion, some organizations will find it easier to explore the question, "Should we and can we continue to exist?"

Early Questions and Assumptions

The initial analysis of the issues surrounding decline and dissolutions produced the following inventory of questions and issues. As we later discovered, these questions were common to most of the organizations surveyed.

1. When should an organization consider going out of business? (Financial crisis; mission accomplished; organizational problem; board apathy; staff apathy; mission no longer applicable; legal crisis; lack of community support)

2. What are the alternatives to going out of business? (Solve financial crisis; establish new mission; solve organizational problems; rejuvenate board; rejuvenate staff; merge or cooperate with another organization; solve legal crisis; spin off problems; develop a strategic plan)

3. If an organization decides to go out of business, what issues should be considered? (Client/constituent needs; staff layoffs; program and service loss; system changes; board role; financial obligations; legal constraints; public relations implications; cost implications; commitments both legal and extra-legal; going out in style)

4. What is the process for going out of business? (Internal decision-making with board; discussion with collaborators/competitors; shifting clients to other service providers; developing the legal process; developing the financial process; discussion with funders; maintaining staff morale and productivity; leaving a legacy). ■

When Should an Organization Go Out of Business?

This section of the report reflects the issues, ideas, and recommendations drawn from interviews, the literature search and investigator observations.

Warning Signs

"The point at which the organization's mission is 'to survive' is the point at which an organization should consider going out of business."

In the interviews and literature analysis we looked for patterns of issues, incidents and circumstances which were present just prior to the decision to dissolve. The most striking and repetitive themes are enumerated below.

These indicators of trouble are not predictors of decline. We know of many organizations which have experienced one or more of these perilous circumstances and have successfully overcome the problems.

1. ***Loss of all or a significant portion of support*** from a key funding source. Many programs owed their existence to a key supporter who had over time contributed substantial money and credibility or visibility. A sudden change in the level of support from a key funder often demanded complete restructuring of the organization's financing. No single pattern or reason for defunding emerged but a distinct set of situational factors were often present:

   - Federal, state or local government spending priorities shifted.
   - Organizations which represented minority clients or provided non-traditional service (often to a difficult-to-serve population) received start-up support in recognition of the need and their apparent or stated capability to effectively meet those needs. These organizations, while attentive and responsive to client needs, did not develop the kind of organizational infrastructure, (e.g., accounting practices, evaluation mechanisms, reporting systems, personnel policies) which documents responsible management. Start-up funders, it appears, were willing to overlook this deficiency, up to a point. As these organizations grew and moved toward more traditional funding sources, the expectations for "good management" also grew and the organizations could not meet those expectations. Very often the leaders of these organizations were respected for their service and program design skills, but had little or no experience, training, or aptitude for their role as a manager. It is typical for some organizations at this stage to go through a leadership crisis somewhat akin to the entrepreneur who must eventually turn the reigns over to a manager. The organizations' inability to develop a credible management team and infrastructure were ultimately their downfall.

"If your organization is in trouble and you're waiting for a sign from heaven, it ain't going to come."

- Small and emerging organizations, which had effectively served an underserved population and focused the community's attention on this population, were no longer able to capture a large enough segment of the market because larger and more established multi-service providers began to absorb their clients.

  The small organizations were often constituent-led and were adept at developing effective service models and mobilizing support for their previously unserved clientele. As their cause became widely recognized other organizations reached out to serve that population. From a community organizing standpoint these groups succeeded. As managers, however, they often felt cheated of their rightful place in the service delivery system.

  These organizations also tended to be led by charismatic and passionate people whose Achilles' heel was a commitment to the mission and vision of the organization to the exclusion of practical concerns. Visionary zeal rather than cautious assessment ruled their decision-making. The mission of these organizations tended to be focused on a narrow set of activities rather than a broad and compelling statement of their role in the community. This was especially lethal when combined with a weak or subservient board.

2. ***"Chasing dollars" syndrome.*** As financial pressures mounted many organizations succumbed to the temptation of developing programs primarily to attract the available dollars. To some extent all nonprofits must shape services to meet the funder's needs since it is, in effect, the "marketplace" in which they operate. For some organizations however, it is clearly the beginning of the end. Program development became indiscriminate. While initially, this "dollars-drive-the-program" approach was used to bridge a funding gap it eventually became the normal operating procedure and paved the way for larger crises such as:

   - widespread confusion about the direction, emphasis and philosophy of the organization;
   - a lack of experience in budgeting for new programs leading to gross underestimation of the cost of the program and even larger deficits;
   - failure to reach service goals because the program was designed to reach an unfamiliar target group in which the organization had no foothold;
   - shifting of key staff from core programs to new programs sometimes leading to a loss of quality, clients, and credibility within mainstay programs.

3. ***Sudden and dramatic expansion of services.*** This was perhaps the most seductive and tragic scenario. It felt a great deal like success to the nonprofit. They were doing what was needed and lots of it. Government funded expan-

sion seems to be the most risky since it rarely covers the cost of expanding capability. Their unbridled commitment to serve led to several costly and sometimes fatal developments:

- paying staff overtime to meet the demand, thereby driving up the cost of service without corresponding increases in revenue;
- overworking and burning out staff in order to meet unrelenting client demands;
- depleting cash reserves in order to meet short-term needs;
- loss of service quality through rapid expansion and poor internal controls.

"We live under a myth that bigger is better."

4. ***Falling behind on financial obligations.*** A precarious financial condition often set in motion a pattern of crisis management characterized by:

   - missing payroll,
   - frantic fundraising efforts,
   - drastic and impetuous expense-cutting strategies which significantly reduced service capability and further eroded the organization's credibility,
   - departure from sound accounting practices, (e.g., unsecured borrowing from restricted funds and nonpayment of payroll taxes),
   - key staff and board "abandoning ship,"
   - rumors of the organization's impending demise,
   - board deliberately uninformed or misinformed about the financial crisis.

   Organizations which deployed quick-fix financial strategies usually postponed their crisis but did not avert it.

"If your organization is in trouble, it ain't nothing new."

5. ***Consistently unable to meet service and financial projections.*** Very often these organizations set unrealistic goals, based on a set of untested assumptions and without a well-thought-through plan for how to reach service and income targets.

6. ***Departure of key board and staff.*** This warning sign was often a by-product of the organizational decline process. The exodus of key people was generally precipitated by:

   - a growing and unrelenting sense of hopelessness,
   - repeated unsuccessful fundraising efforts,
   - increased board involvement in staff activities,
   - frustration and anger about the organization's problems,
   - a desire for secure employment in an organization with a future.

"Poor planning may be worse than no planning. It gives you a false sense of security."

"Once the standards of ethical, legal and moral conduct are lowered and boundaries crossed, insidious decay occurs with great speed."

Causes

When work first began on this project several people suggested it might be possible to develop a test of organizational viability or a "litmus test" of organizational health. If an organization met a certain number of criteria, it would send a signal that it was time to begin planning for the end. Perhaps predictably, this complex web of issues, circumstances and variables did not lend itself to simplification.

There were, however, several patterns which emerged from the analysis of the interview data. Even when all of these conditions are present it cannot be said with certainty that the organization's demise will follow. This analysis of causal factors does, however, isolate several critical issues for managers. The decline and demise of the organizations in this sample was caused by one or more of the following factors:

1. ***Lack of clarity and consensus about the organization's mission.*** The staff and board of several of the surveyed organizations had lost a clear sense of why the organization existed and whom it intended to serve. As the mission drifted out of focus, the organization found itself in a pattern of trying to be all things to all people. Lacking a clear sense of purpose and direction, these organizations indiscriminately chased program dollars.

2. ***Bad planning.*** Many of these nonprofits operated in an uncertain environment. The careful management of resources and constant contingency planning was of critical importance, yet rarely or poorly done. Board and staff spent most of their time reviewing the past and investing their hopes in grandiose and unrealistic miracles. Planning efforts were typically restricted to generating short-term solutions to immediate crises or to the development and premature launching of new services.

3. ***Insufficient cash reserves.*** Most of the organizations operated with little or no cash reserves. When a financial crunch hit, the organization had no room or time to weather the storm. While inadequate cash reserves are characteristic of nonprofits these organizations had no alternative source of readily accessible cash, (e.g., a working relationship with a bank, a line of credit).

4. ***Isolation and bad reputation.*** Due to poor service delivery, questionable management practices or political alienation, many organizations had lost credibility with other agencies and funders. They were often unaware of this fact. As their image deteriorated they were sometimes subtly, but quite effectively, ostracized. The organization, faced with a lack of external support and relationships, became increasingly consumed by internal conflicts and financial problems. Ultimately, they lost touch with funders, collaborators, constituents and the outside world in general. Aside from blaming the external world for their predicament, they had disengaged from the community. Legal mandates and common sense dictate that effective nonprofits have strong relationships with multiple sectors of the community.

5. ***Failure to abide by legal requirements or regulations.*** Most common were:

   - failure to pay payroll taxes (often used to provide temporary cash flow),
   - violation of Fair Labor Standards Act—most commonly, not paying overtime to non-exempt personnel,
   - noncompliance with third-party (federal) reimbursement requirements,
   - violation of restrictions placed on funds by funding sources.

   In addition to the financial judgements which can be substantial (back pay awards, penalties, fines, etc.), criminal charges may be brought in cases of fraud. Obviously, defending the organization's leadership in court or facing hefty fines present difficult if not impossible financial and public opinion hurdles for an organization. At the very least, violations of legal requirements will bring staff resentment, demoralization and increased liability to the board. ■

"As the leader, you carry a great burden. In the depths of dissolution I began working from my weaknesses rather than my strengths."

"The real dilemma is stress (maybe distress) of individuals. What's good for the organization may not be what's good for me."

Strategies For Managers and Board Members

This section of the report provides recommendations for organizations which are facing the possibility of dissolution. It also includes suggestions for funders, board members and members of sister organizations. We considered a broad range of sources: the interviews, the literature and the experience of Management Support Services' senior consultants. Some of it may strike the reader as utterly common sensical, and it is.

However, one common thread ran through all of the interviews with executives who shepherded an organization through the dissolution process. Guiding an organization through this journey of decline was a process marked by feelings of enormous responsibility, solitude and uncertainty. At times like these, common sense and rational decision-making became elusive commodities for the executive and board. It is as though the compass had lost magnetic north and every course correction was but a haphazard strike at the final destination.

Since this project only looked at organizations which actually dissolved, the strategies described here are not turnaround strategies but rather a set of decisions and processes which enabled organizations to undertake the dissolution process in an orderly way. By orderly we mean:

- the lives of clients were minimally disrupted,
- board and staff participated in the decision,
- the organization's business was systematically dissolved, and
- the organization's good name and the reputation of the board and staff remained intact.

Considering the Alternatives

In some respects the most difficult moment in the process occurs when someone, usually the executive or a board member, first raises the possibility of dissolution. Suggesting this option is a difficult but critical first step. It is best posed as a question which needs to be answered: ***Can we and should we continue to exist?*** What is important here is to make a conscious decision about the organization's future rather than just letting it happen.

We recommend that organizations in trouble candidly address this fundamental question by:

1. ***Developing a six to 12-month operating plan with specific goals and bench marks including staffing, financing, cash flow and service projections.*** The development of such plans, often financed through special foundation grants, were cited as critical to arriving at an objective assessment of the organization's condition and viability. The organization's leadership used these plans in a variety of ways.

- Deciding what was the critical mass of staff and services below which they should not operate. In some cases, organizations were financially able to exist, but the broad scale reductions meant that the mission could not be adequately achieved.

- Establishing bench marks or short term goals as make or break points. For example, if they could not raise $25,000 by June 1, they would begin the dissolution process. The goals provided a clear, commonly understood and shared target. Failure to reach the goals became the next dissolution decision point.

- Testing different scenarios. For most organizations, going from business-as-usual to dissolution requires an analysis of options. Most common were growth, downsizing and merger or collaboration.

- When the organization could not develop a satisfactory plan, it was a signal that it was time to begin planning for the end. Often, the prospect of another year of deficit producing operation was more than anyone could bear to face.

"A failing organization can linger endlessly."

2. ***With board and staff input, develop a set of criteria to assess the soundness of the plan.*** The great risk at this initial stage is that the organization will continue to let hope override reality and emotion prevail over reason. The development of criteria enables reason to enter the process again. (Criteria might include: fit with the mission, financial feasibility, shows appropriate concern for client needs, etc.)

"We were on the brink of financial disaster for six years."

3. ***Convene an ad hoc committee of the board whose job it is to examine the issues, develop criteria, construct plans and make recommendations for the board to consider.*** There are two primary reasons for this step:

   - It gives official permission for a subset of the organization to consider the question of continuation. Not all board members will willingly come forward for this kind of assignment. In most of the organizations we examined, board opinion was quite divided until the end. Because the spectre of failure looms so large there will be great temptation for the vocal and most zealous board members, even when few in number, to override the dispassionate assessment of the majority.

   - Much of the board's activity at this stage will involve crisis management. In many cases board members begin to function as staff members in order to compensate for lay-offs which have already occurred. Without a clear assignment to spend at least part of their time wrestling with the organizations' future, there is a great risk that the board will spend all of its time battling the crises of the moment.

4. ***Communicate with staff. Communicate with funders. Communicate with the board.*** The time is ripe for rumors and in the absence of facts or information rumors and the grapevine will take over both inside and outside the organization. Effective rumor management is critical. People both inside and outside the organization will talk; it is your job to supply

them with accurate information. In addition, it is important to continue to collect data about the organization's perceived viability. Strong, clear, communication is needed to:

- Keep key board, staff and funders from prematurely abandoning ship.
- Keep options open. If, for example, merger becomes an option, the organization will be in a much stronger position at the negotiating table if rumors of its demise have not preceded it.

A couple of suggestions for taking control of the rumor mill:

"It is impossible to overstate the importance of frequent and forthright communication."

- Decide early who gets what kind of information. There is a delicate balance to be struck between secrecy and "hanging out the dirty laundry." Consider the circumstances of the organization, the objectives of the next period of time and rely on facts to guide the communications strategy.
- Designate one or at the most two people who are responsible for communicating with staff, funders, and the media. This minimizes the opportunity for mixed or conflicting messages. In some cases it may be necessary to have answers to the most common questions printed on cards which staff can keep by their phone.

5. ***Cutback Management.*** The preceding section summarized those strategies which lead up to the dissolution decision. Since some period of cutting back inevitably precedes the decision to dissolve we have provided the following "words of wisdom" about cutback management.

   Many organizations have responded to repeated cuts in funding as short term crises. They have responded by deferring maintenance, reducing staff through attrition, and making across-the-board cuts. Although these strategies are helpful in a short-term squeeze they are damaging when cutbacks persist over a period of years. Cutting back is particularly difficult for human service providers. Often they believe that the people they serve are already underserved and all the services they provide are essential. Rationing services and denying access to eligible clients are unacceptable postures and yet it is the very stuff of which effective cutback management is made.

   In the last five to 10 years much has been learned about cutback management. A few of the theories supported by research are listed below. *

   Across-the-board vs. Targeted cuts
   Five-percent cuts for every program or service is a traditional governmental approach to making cuts. It is touted as a fair method. Yet it is not fair, it is simply easier. It eliminates the need for evaluation and judgements about effectiveness and efficiency. Targeted cuts require decisions and priorities to be based on criteria related to the agency's mission and goals.

Deep gouge vs. Small repeated cuts

Incremental cuts made year after year diminish and eventually completely erode the organization's capacity to fund new or more important areas of service. Deep gouge cuts are very difficult since they are made in anticipation of a continuing need for retrenchment but they are far less debilitating than chronic, piecemeal cuts.

Program vs. Nonprogram cuts

Nonprogram cuts, such as deferring maintenance, can be helpful if the cuts can be restored or efficiencies can be introduced which make up for the loss. Most often nonprogram cuts are a one-time tactic but not suitable as a long-term strategy for retrenchment since they eventually lead to the deterioration of an irreplaceable asset.

** Information on cutback management was adapted from an unpublished and untitled paper by Frank Schneiger for the Greater New York Fund/United Way.*

Now let us assume you have decided the organization can not or should not continue to exist.

Dealing With Stakeholders

The following suggestions for dealing with the various stakeholders as the organization proceeds through the dissolution process come largely from the interviews. A more detailed description of dissolution responsibilities and tasks is available in a separate legal report also available from MSS.

1. Funders

Notify and negotiate all outstanding contract obligations. The organization's life may be coming to an end, but chances are good that its staff and board will resurface in the nonprofit community. Leaving reputations intact and the good name of the organization unsullied are important objectives.

2. Staff

- Be direct and open about the organization's future. Tell staff what the operation will look like during the dissolution process, what the reasons are for dissolution, and on what day or during what month the end is scheduled. Put an end to uncertainty and speculation in the ranks. Early and forthright disclosure may encourage some of the most capable staff to stick with the organization through the dissolution process. In the absence of information, many people will assume the worst and find positions elsewhere. The challenge for the executive is to time the staff's inevitable departure to meet the organization's needs and to balance that with as much fairness to the employees' needs as possible.

"You can have an honorable death."

- Give staff options and where possible, involve staff in planning for reductions. If you need immediate layoffs ask for voluntary resignations or provide for leave without pay or part time options. Provide opportunities for resume development, career counseling, and job seeking during work time. Do not attempt to justify the order or reason for layoffs by referring to performance issues.

- Enlist the help of key staff in planning the dissolution and answering questions like:
  - where will clients go?
  - how can we leave a legacy?
  - which services might be spun-off intact to another provider organization?
  - what level of service can be maintained?
  - what sort of ceremonial act should we hold to ritualize, celebrate and mourn the end? (e.g., a "funeral")

3. *Clients/Consumers/Members*

Although we did not hear numerous stories of client trauma or suffering as the result of a nonprofit's dissolution, client concerns ought to be considered in the dissolution process. At a minimum, the following two steps merit consideration:

- Identify those clients who might be at risk due to the loss of service and take steps to minimize their risk.

- Identify other providers and services in order to arrange a smooth transition for those clients who can be transferred.

4. *Board*

- The board or membership of the organization must formally agree to the dissolution. A review of the bylaws and articles of incorporation should provide the specific requirements for this action, whether by two-thirds or simple majority vote.

- In Minnesota, all dissolutions must be done through the district court of the county in which the organization is registered. Even the so-called out-of-court dissolution must be done through a petition to the court. Of the 17 organizations in our sample not one had gone through the courts. The State of Minnesota prefers that nonprofits who are functionally nonexistent go through a legal dissolution, but there are no penalties for failing to do so.

- By law, the assets of a dissolving nonprofit must go to another nonprofit organization with the same or similar charitable purpose. If it has not been addressed in the articles of incorporation or by-laws, one of the board's final acts should be to determine who will receive the remaining assets of the organization. If you are unable to identify an appropriate recipient, the state's Attorney General will oversee the distribution of assets.

- When the petition to dissolve is made to the court, the court will appoint a liquidating receiver or trustee. It will be this person's responsibility to oversee the winding down of the organization's affairs. This can take up to one year from the termination of the last employee, since W-2's must be filed. An attorney from the board is often a good choice for the role of court-appointed trustee.

5. ***Vendors/Creditors***
   - As with funders, the best advice here is to discuss and negotiate settlement and a payment schedule. If full payment is not possible, some creditors might consider writing off some portion of the debt or converting the outstanding debt into a grant. Any sincere gesture is appreciated by creditors. Chasing bad debts is costly and unpleasant for everyone.

The Role of Outsiders

Funders

Several unexpected and repeated requests were expressed by the people interviewed in relation to the role of funders. When dealing with an organization in this situation funders might consider the following:

1. ***Provide grant support which allows an organization to do planning and decision-making about its future***. Organizations which had received this type of support consistently reported it as a critical element in providing them with the time and expertise to make rational choices about the future of the organization.

2. ***Be willing to fund the dissolution process.*** An orderly process takes time and much of the work is not reimbursable through normal purchase-of-service contracts. Managing the dissolution process in addition to managing and maintaining services requires more resources. Taking time to transfer client loads, preserve the legacy of the organization and provide time for staff to move on are activities essential to the process of graceful decline. It may not be as exciting to fund the end as it is the beginning, but it is no less critical to the future of clients and staff.

3. ***Be honest and hold grantees accountable.*** Nonprofit executives want straightforward messages about how their organizations are perceived. They want to know that if they say they will do something (in a proposal), the funder will hold them accountable. What the executives seem to be asking for is early and helpful intervention, feedback and accountability from their funding partners. The decision to defund should not come as a surprise.

4. ***Extend yourself to the executive leading an organization through this process of dissolution.*** With few exceptions the executives interviewed spoke of extreme loneliness, fear and uncertainty during their final term at the helm of these organizations. In several cases program officers became personal supporters of these executives and provided much needed encouragement in addition to technical assistance and direction. Understanding and a genuine caring friendship went a long way in sustaining the morale and courage of these executives.

Consultants

None of the respondents used paid consultants in the dissolution process. However, several of them recommended using a variety of consultants, such as:

- ***Social workers and psychologists*** to help staff with the very real issues of grief, shame, resentment and anger issues they will experience.
- ***Attorneys*** to help with the countless legal loose ends and requirements of dissolution.
- ***Real estate agent or lawyer*** to assist in the valuation and disposition of real property.
- ***Outplacement or career counselors*** to help staff develop resumes, renew their job seeking skills and re-examine their career goals.
- ***Accountants*** to help address financial issues and prepare frequent and accurate cash flow projections.
- ***Management consultants*** to help the board and staff develop and execute planning processes for merger, decline or dissolution. They can also assist in the complex change efforts presented by any of these options. Skilled consultants can be used to facilitate difficult decision making and provide coaching and support to executives.

"Funders should cultivate community talent and not support incompetent executives."

Sister Agencies

Many executives reported receiving some of their most crucial support from colleagues. These gestures and anecdotes have been distilled into the following set of recommendations:

- Be open to "adopting" a service which the dissolving organization once provided.
- Talk forthrightly to your colleagues about rumors or perceptions the community holds about their organization.
- Be willing to act as a sounding board for the executive.
- Consider hiring staff who are getting laid off.
- Provide the dissolving organization with a temporary office from which they can conduct the final business of the organization. ■

As we said earlier in this report, we believe that more and more nonprofit organizations will face issues of decline and dissolution in the years ahead. For some, incompetence and mismanagement will contribute to their demise; others will be the victims of changing times, fewer dollars, and other circumstances beyond their control; and many more will use this crisis as an opportunity to redefine their mission, adjust their services and learn to operate in new and more effective ways with fewer dollars.

It is our hope that this report, along with many others, will enable the non-profit community to:

- learn from its own experience,
- develop management systems and structures which support effective service delivery, and
- continue the development of a humane and progressive social welfare system.

We readily admit that we are but one voice in the dialog among nonprofit executives, board members, funders, clients and others. As such, we eagerly await your comments, reactions and criticism of this report.

"Voluntary dissolution of a nonprofit corporation doesn't mean the end of the world; it simply means that there may be other, better ways to get the job done."

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