Is it Time to Close?

ONE HIV/AIDS ORGANIZATION'S EXPERIENCE MAKING THIS DIFFICULT AND EMOTIONAL DECISION

PRESENTED BY

metro teen AIDS

ACKNOWLEDGEMENTS

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Dear Colleague,

For over 25 years, Metro TeenAIDS (MTA) provided high quality HIV prevention and related services for youth in Washington, DC. As an organization, we prided ourselves on our outstanding and fundable programs and services as well as our ability to anticipate change, prepare for it, and stay a step ahead of the curve. But sometimes, no matter how much an organization tries to diversify funding or stay nimble when faced with challenges or changes, its leaders can no longer guarantee a financially solvent future. At MTA we experienced this as a result of significant shifts in the funding environment – both locally and nationally. In 2015, our leadership went through a difficult and emotional process to decide how best to serve out our mission in the long run. The ultimate decision – to join forces with a community healthcare provider – was not made lightly. We have written this document to share our experience in hopes that the lessons we learned will be helpful to you, as you consider difficult decisions about your own organization's future.

From its inception in 1988 until 2000, MTA was a relatively small organization with an annual budget under $1 million. After bouncing back from near closure in 2001, our organization grew every year from 2003 to 2013, with an average annual growth rate of 25% between 2008 and 2012. By 2013, our budget was $3.67 million. We were an established, reputable HIV/AIDS organization.

Even in the midst of our own growth, we felt the impact of organizational mergers in our sector. In 2007, we were approached by another youth-serving HIV/AIDS organization that was in financial distress and was looking to join MTA. That merger was ultimately abandoned, but the other organization ended up not being sustainable. In 2011, when they were forced to shut their doors, MTA took on their programs and clients. The experience of watching the sudden closure of this organization, and others in the city, greatly affected MTA's leadership. We did not want to abandon the people we committed to serve.

During this same time period the Affordable Care Act was passed and the landscape for federal and state investment in HIV prevention programs began to look less promising. Additionally, from the beginning of the recession in 2008, our local foundation landscape also began to change. Fannie Mae and Freddie Mac's foundations closed, and other local funders were shifting priorities or shutting down in the wake of the financial crisis. Finally, we observed a declining sense of urgency around HIV/AIDS and health issues in general. We knew that many of our services could be billed to Medicaid or insurance, but MTA lacked the client volume and infrastructure.

A key litmus test for us came in late 2013 when we designed a 3-year forecasted budget (2014–2017). We were unable to envision a 2017 budget that would sustain our existing programs and services. As a result, we decided to seek out a strategic alliance with a well-aligned health care provider. We found this match in a long-time partner organization, Whitman-Walker Health (WWH), a well-established, financially secure, Federally Qualified Health Center that could bill Medicaid and was looking to expand its services to youth.

In the pages that follow, we have outlined aspects of MTA's decision-making process and acknowledged the intense emotions involved when nonprofit leaders, specifically those operating AIDS service organizations, are faced with important decisions related to sustainability. We offer guiding questions to consider, suggestions for leaders facing organizational change, and key successes and challenges of the MTA experience shared as lessons learned. While every situation is unique and no single document can provide a roadmap that is applicable in all situations, this document, based on the experience at MTA and WWH, is offered as advice from one AIDS service organization to another. We endeavored to explain not only *what* we did, but *why* we did it – because the deepest learning is always in the "why."

In community,

Adam

Adam Tenner
Former Executive Director
Metro TeenAIDS

**"Nonprofit leaders are by nature – and role – problem solvers.
To strong leaders, the idea of closing or merging can feel like a failure.
But *anticipating change* is a crucial responsibility of organizational leaders.
Putting our clients and mission first helps us to make the right decision at the right time.
This is sign of good leadership."**

—Adam Tenner

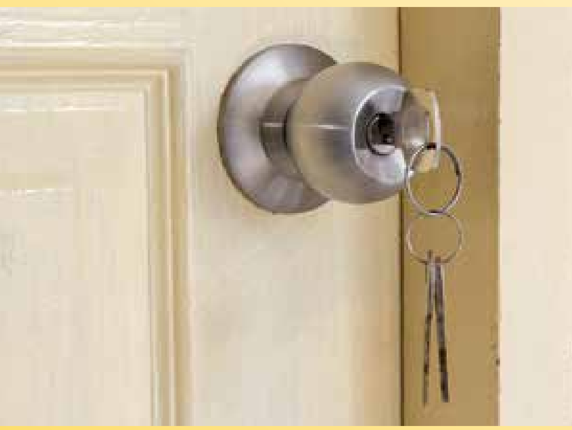
PRIORITIZE THE PEOPLE YOU SERVE

No matter what your next steps are – merger, strategic alignment, closing – it is critical to keep the needs of the clients, consumers and community at the forefront of any decision. If the community is your priority, you are much more likely to make better decisions, even if that means closing your doors.

AVOID SUDDEN CLOSURE

When direct service organizations close without notice, the impact on the community can be devastating. From clients to staff, a lack of good transition leaves everyone vulnerable.

We should be mission driven to the end, even when closing an organization. Preparation is critical to ensuring a smooth transition for everyone.



DON'T FORGET YOUR FUNDERS

Think about your organization's top funders. Are they local? Do you have strong relationships with their leadership? Will it be important to keep them engaged for the sustainability of your programs?

Consider inviting funders to the table to discuss potential options for your organization. If you have lawyers involved, ask the lawyers to include key funders in the non-disclosure agreement.

Funders that feel part of the transition process can be helpful in ensuring the long-term viability of the programs that matter most to you.

How Sustainable is Your Organization?

Several factors have contributed to a dramatic shift in the funding landscape for AIDS service organizations in the past few years. According to Funders Concerned About AIDS (FCAA),"philanthropic HIV/AIDS funding is at the lowest level since 2007." This decline can be attributed to large funders closing or reducing their HIV/AIDS grantmaking, key funders shifting toward other health areas, a shortage of new foundations emerging in HIV/AIDS philanthropy, and the majority of current funding going to projects with a global aim. The decrease described in private foundation funding is not unique to the HIV/AIDS sector. In 2014, the Foundation Center reported that, "…some endowments are still recovering from the Great Recession, and not all foundations have achieved the rates of return suggested by market averages." As a result, even financially stable organizations may be wondering if they can sustain operations for the long haul.

Knowing that future funding for AIDS service organizations is likely to remain tenuous, the following pages are designed to help you think through some key questions. Please also see the additional references listed at the end of this document.

SCENARIO 1

We can envision robust funding for a minimum of 3–5 years and our projected funding aligns with our strategic direction.

Congratulations! It sounds like you are in a position to stay the course for now. But don't get complacent – continued strategic planning may be beneficial and it is important to always have an eye on the future. As you continue to look 3–5 years ahead, consider the following:

- What external factors might change your forecast?
- Do you have significant unrestricted savings (more than 6 months), allowing your organization to be flexible if faced with sudden change?
- Would it be beneficial from a programmatic or financial standpoint to have other organizations **join you**?

SCENARIO 2

We can envision funding for 1–2 years, but the financial outlook beyond that is uncertain.

If you find yourself rethinking your organization's programs, services, or structure, this may be the time to determine whether you can shift focus or shrink your organization down to its most essential, fundable programs in order to remain sustainable in the long term. There may be an advantage to ending some programs, developing new ones, or otherwise pivoting so that your organization can remain supported financially in the long term. Alternatively, there may be an advantage to consolidating administrative services with a partner organization or a network of partners. If unrestricted funds are your organization's largest hurdle, it is possible that reduced administrative costs might be an answer for you.

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1. Funders Concerned About AIDS. *Philanthropic Support to Address HIV/AIDS in 2013.* p. 6.
2. Ibid. and Funders Concerned About AIDS. *U.S. and European Philanthropic Support to Address HIV/AIDS in 2011.* p. 5. In 2011, only 20% of all HIV/AIDS philanthropy addressed the U.S. HIV epidemic – the remainder was directed at national and regional-level projects outside the U.S. (36%) or for projects of global benefit (44%).
3. Foundation Center. *Key Facts on U.S. Foundations: 2014 Edition.*

Consultants could be useful at this stage to guide decision-making and help leaders develop a plan and focus on action items during this emotional process. No matter what the future holds, this is a good time to focus on getting your organization's affairs in order to make your organization more attractive to potential investors and partners, in the event that you decide to pursue administrative sharing, a full merger, or something in between.

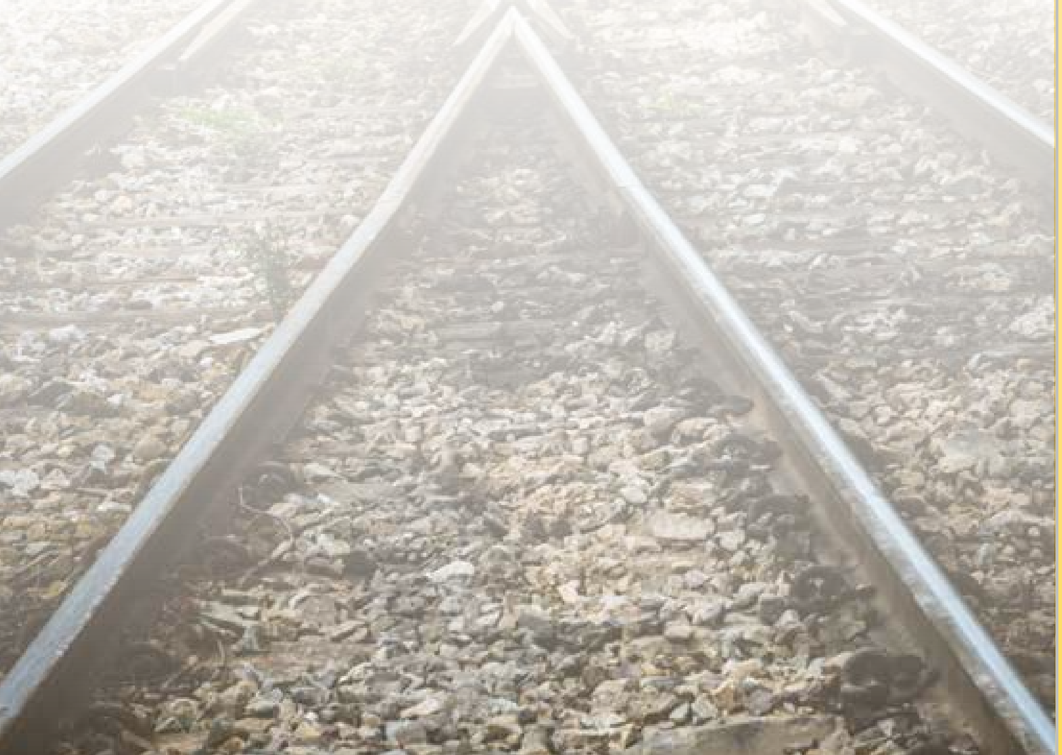
- Can you realistically add or change your programs to attract additional funding? And would that be enough?
- Can you eliminate under-funded programs and stay afloat at reduced size?
- Are there organizations with which you can partner – both to cut costs and to increase attractiveness to funders? (Note: aligning or merging administrative functions does not always yield cost savings. Make sure to do the math.) If there are potential partnerships worth exploring, start talking to those organizations now. Trust is critical to any process so start building it today.

SCENARIO 3

We are currently struggling to remain solvent and are unsure of the path forward.

If your organization is in financial crisis already, it is very unlikely that focusing exclusively on strategic planning or asking difficult questions will help your organization stay afloat. *Now is the moment for decisive action that* ***prioritizes the needs of the people you serve.*** This could mean reaching out to donors for an emergency gift or looking for an organization to take over. If those options are not available, it may be time to consider transitioning clients and gracefully closing. Regardless, it is time for a bare bones budget. Be sure to consider expenses such as the final audit, HIPAA-compliant archival of client records, buying out of contracts, etc. when creating your final budget.

- Is there any emergency funding you can secure to help support your movement toward a new direction?
- Do you have any volunteers who can help you with the shut down work?
- How will you transition clients to other providers so that they are not left without assistance?



EXPLORE YOUR OPTIONS

When facing a time of organizational uncertainty, leadership choices are not simply confined to a merger or a closure. Has your leadership considered the following?

- Combining administrative tasks with another organization to reduce administrative costs
- Creating a consortium with other likeminded community based organizations and applying to Medicaid as a consortium
- Establishing a single, exclusive contract with a Federally Qualified Health Center (FQHC)
- Becoming a program within a university health system
- Becoming a stand-alone program within another organization
- Fully merging with another organization

CHECK YOUR ALIGNMENT

When looking at potential partners, it is important to think about organizational fit in multiple ways. Here are some questions to consider.

- Are your missions and visions of the future aligned?
- Does the organization have a strong reputation among your clients, in the community, and with funders?
- Do your organizational charts match up? Will your staff have similar titles and reporting structure?
- Do the benefits and salary scales line up? Will your staff have similar benefits and salaries?

CONSIDER ORGANIZATIONAL ASSETS WHEN WEIGHING OPTIONS

The following assets could affect the feasibility of different organizational transition options, enabling higher-effort actions if present or requiring simplified plans if absent:

- Strong board of directors
- Strong internal leadership
- Sufficient funds for various scenarios
- Favorable political climate
- Time to devote to the process

Addressing the Emotional Impact of Transition

The emotional impacts on leadership, staff, and community members involved in organizational transition must not be minimized. In the nonprofit sector, executive directors, board members, and other key stakeholders have often poured their hearts into the work they do. Their passion is what drives them and their commitment is often what keeps the organization viable. To consider merging or shutting down can often be seen as a personal failure to the people who have felt responsible for the organization's success. Ego, identity, pride, guilt, shame, and a sense of loss are just some of the complicated factors that can affect decision making.

An organization that prioritizes the needs and interests of clients while transitioning must consider the emotional impact of a transition on its leaders and staff. The clients will not be well served if staff are anxious or determined to leave in search of employment elsewhere during the transition period. The staff with whom clients regularly interact need to feel clear about what is happening to their jobs, or that they will have sufficient notice if anything changes. In order to accomplish this, managers need to communicate messages about the process, while also managing their own anxiety about the future. Generally, leadership needs to communicate sufficient information without jeopardizing any non-disclosure agreements, and, at the same time, manage stress and emotions.

Rather than minimize the emotional impact of this decision, consider planning for it up front. Ensure that the top leadership has time and space for mental health care – whether that be time off, professional mentoring, counseling appointments, or something else. If available to your organization, consider contracting with an Employee Assistance Program (EAP) or providing other avenues for confidential behavioral health support. Keep communication channels as open as possible while still sharing only the facts cleared for discussion by attorneys and organizational leaders so that there are no broken promises in the end. Change in any organization is scary and difficult. Uncertainty is stressful. Facing these facts and incorporating services and policies to support emotional health from the beginning will help the transition be successful.

Integrating into a new organization is also difficult. Once the dust has settled and the staff who transitioned to the new arrangement are in place, apprehension, and even distrust, can linger. Staff may need to adjust to a new culture and possibly the loss of some co-workers. Staff may struggle to find their place in a new organizational structure. By taking care of small details, providing the most complete information possible at the earliest moment possible, and doing what is possible to help staff assimilate into a new culture, you and your partner organization(s) can help mitigate negative emotions that might arise among staff, whose contentment is critical for sustaining uninterrupted client services.

THE INTERSECTION OF BUSINESS AND EMOTION

As difficult as this may be, there may be a point during an organizational merger when the leadership needs to ask itself, "How much can we accommodate the needs and emotions of our staff, and how much do we just need to think like a business and get this deal done because it is in the best interest of our clients and our community in the long-run?"

Lessons Learned from MTA's Experience Joining WWH

Throughout its 25+ year history, one of Metro TeenAIDS's (MTA) strengths was the ability of its leadership to anticipate change and prepare for it. MTA's focus on trying to "see around corners" helped its staff leverage new opportunities and grow; stay nimble when faced with changes in the funding and service-delivery environment; seek out the strategic alliance with Whitman-Walker Health (WWH) when it became clear that MTA's traditional funding had run its course; and execute a graceful transition before the organization was in crisis.

This section includes some tips that have been suggested by leaders at both MTA and WWH as well as from a key funder of both organizations. It is designed to provide colleague-to-colleague advice from leaders who have been through the process.

Prioritize clients and community. Key stakeholders in this transition– leaders at both MTA and WWH as well as funders– report that the greatest success in this process was the fact that **all of MTA's clients were successfully transitioned to WWH.** This is a testament to the leadership and staff who prioritized the clients' needs, ensuring that all services and relationships were maintained. MTA's strong commitment to clients resulted from its longstanding position as the go-to organization for youth and their families as well as to its experience scrambling to provide services to the clients of another youth-serving HIV/AIDS organization after that organization suddenly shut its doors, with no plan for transitioning its clients to other service providers. After building relationships with youth for 25 years, MTA wanted to be sure that, no matter what the final outcome was for the organization, DC's youth would remain connected to programs, services, and staff members they trusted. Every decision made as part of the strategic alliance process was grounded in the goal of maintaining uninterrupted client services throughout the process.

Choose the right partner. In 2014, when MTA's leadership projected that sustaining programs and staffing might be impossible without a dramatic change, they began to look for partners for a strategic alliance. As MTA started considering potential partners, the most important non-negotiable factor was that the potential partner see youth as needing different programs and services than those designed to serve adults. Any potential partner would need to commit to providing custom-designed youth services rather than adult services offered with bright colors and fun fonts. Early in the process, MTA identified WWH as the best match because of WWH's longstanding commitment to the community and the fact that their strategic vision of "wellness" aligned with MTA's vision for the future. In fact, WWH had already identified a desire to expand their services to reach more young people. In addition, WWH is a Federally Qualified Health Center and was already billing Medicaid and private insurance.

Additionally, the two organizations were already working together and the two executive directors already had an established relationship. Finally, both leaders were realistic about what was involved in a merger or alliance because both had been through similar organizational transition processes before.

On the WWH side, ensuring that MTA was a good fit was equally important. WWH employs a two-step strategic assessment process when it considers new partnerships, collaborations, and lines of businesses. The first step involves a formal strategic assessment process *for the specific opportunity under consideration.* Under this assessment process, management analyses the new venture in five major areas: community relations, operations, finance, clinical care, and strategic alignment. Any organization that approaches WWH is analyzed using this tool and rated as red, yellow, or green, helping WWH's leaders make an informed assessment about the

IDENTIFY A PARTNER

Consider what *type* of organization would fit best with yours. Make a *short list* of organizations that are a good fit. Develop a *communication strategy* (e.g., direct inquiry, advertise that you're interested, get introduced). It is OK to talk to multiple organizations, but once you are in negotiations, you should notify the other contenders. Many groups pass a board resolution to initiate negotiations and approve a legal agreement of non-disclosure.

Give additional consideration to organizations that you trust, that you've worked with before, and that have complementary services and a similar culture.

KNOW WHEN NOT TO COMPROMISE

At the beginning of any strategic alliance negotiations, developing a list of non-negotiable items is important.

FUNDRAISE FOR THE TRANSITION

When it has been difficult to secure unrestricted funds for your organization to run, it is hard to imagine securing unrestricted funds to shut down. But that is exactly the situation in which many organizations find themselves. When budgeting for a shut down or merger, be sure to plan for these line items:

Staff: Consider identify key individuals to handle a variety of organizational close-out tasks, such as writing final reports, canceling contracts, selling real estate, closing out the finances, and submitting the final tax return.

Archives: Long term storage of business and client files is particularly important for organizations that have received government funding and entities that are required to meet HIPAA-compliance rules. One option is to contract with long-term, secure record storage companies that will destroy documents at the end of the mandated storage period. Depending on contract requirements, you may need to store program and financial documents for seven years following an organizational closure.

Legacy: Unless you take proactive steps, your organization's legacy will only remain in the archives of newspapers and other media once your website is taken down. Think about your legacy and seek the funds to record it for posterity – both for its new organizational home and for the public record.

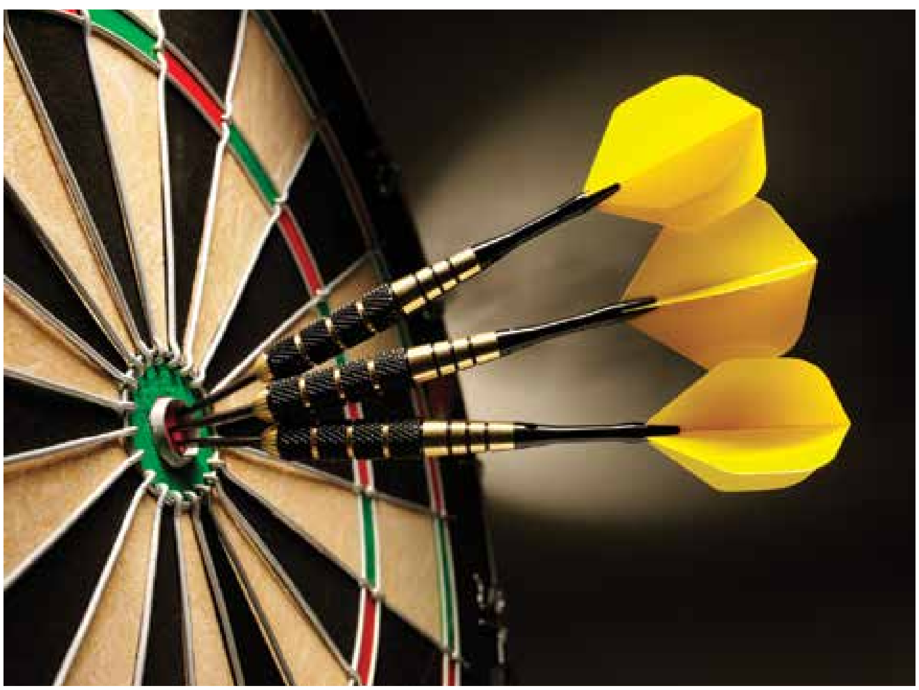
opportunity at hand. The second step involves matters of investment and integration. Under this process, management actively identifies key resources—people, time and funding—needed to successfully implement the opportunity as well as the organizational impact of such opportunity against WWH's current operating priorities. This two-step process provides management with an intellectual and emotional check against a great strategic idea or concept that cannot be successfully implemented because of resource constraints and/or organizational distraction from core mission activities.

When MTA and WWH combined, their leaders were confident that the alignment was beneficial for both.

Finance the transition. Transitioning or shutting down an organization is expensive in the short term. By working with its funders, MTA was able to convert several existing program-specific grants to unrestricted funds as well as secure new funding specific to the transition. MTA also benefited from the fact that this was a planned transition, rather than a decision made in the midst of crisis. MTA found that funders were more willing to invest in a transition that had a high likelihood of long term success. Note that, although lawyers are usually engaged to help with either a merger or wind-down, most large law firms and local bar associations have a pro-bono coordinator that can help connect an organization to legal counsel free of charge.

Anticipate process and communication delays. It was important to work with lawyers to ensure that all appropriate actions were being taken at each step along the way. Finding attorneys that understand the nonprofit sector can be very helpful in expediting the process as some attorneys are more accustomed to the more adversarial tone of corporate mergers and acquisitions.

Communicating with key stakeholders is critical to any process and communication can be made more complicated by a signed non-disclosure agreement. MTA did not communicate with donors until after the legal process was complete. This would have been more of a challenge if several funders had not unrestricted their grants.



Balance short-term and long-term costs / gains. Merging the staff of two different organizations may mean reconfiguring office space, laying off some employees, or changing titles or reporting structure. In some cases, restructuring or aligning organizational charts and instituting lay-offs up-front might help the transition be more successful in the long run. Where possible, retention bonuses might help keep critical staff on board during the uncertain transition period. The specifics of each case will vary. The important point is to weigh short-term cost and long-term gain (as well as short-term gain and long-term cost!) and not to shy away from making difficult decisions before the agreement is final.

Allow sufficient time for cultural integration. When two organizations combine, it is a bit like bringing two families together via marriage. The families need time together to get to know each other and build trust. They need time for sharing, conversation, and of course learning so that they put these new relationships on solid ground. This same approach is true for bringing two nonprofits together with their diverse workforces and cultures. Starting with core values of dignity and respect can help mitigate anxiety and uncertainty among patients, clients, and employees during the transition period. Maintaining open communication about why a transition has occurred can help staff remain focused on the end-goal even if there are some bumps in integrating the organizations along the way.

As Don Blanchon, Executive Director of Whitman-Walker Health says, "You can never have enough time to put toward the cultural integration." The process cannot be rushed and must unfold organically. In his view, this is at least a 3-year process. The first year is not about transferring ownership of programming. Instead, the first year is the time for staff to learn about each other, for grants to be transferred, and for keeping things running so that clients are not lost. The second year is the time for strategic planning and thinking about what changes might need to be made. At this point, the integration is farther along and strategic thinking can take place. Finally, the third year is the window for implementing strategic changes planned in the prior year. For more complex collaborations, the transition period may be as long as 5 years.

Acknowledge that merging organizations is a difficult process. There is no getting around it, change is hard and combining the cultures of two organizations is challenging. It can be helpful to have a dedicated person who has time to work on all the issues that arise throughout the process as well as for some time after the integration. Be willing to listen and to collaborate. Compromise when necessary. And encourage leadership and staff to make time for self-care to avoid burnout. As you chart a course for your organization's future, remember that combining two organizations is not the end point; rather, it is the starting point toward a vision of long-term sustainability.

We wish you the best of luck as you grapple with difficult questions related to your organization's sustainability and focus on how to maintain your client services, support your staff, and preserve your organization's legacy.

DON'T KICK THE CAN DOWN THE ROAD

When joining forces with another organization, be sure to get your affairs in order before finalizing the agreement. In particular, take note of these areas:

Personnel: Make sure the best employees will be transitioning to the new organization and that any outstanding personnel issues are resolved before the organizations combine.

Funding: Transition relationships with all funders to the lead organization, making sure that all of the appropriate people are introduced to each other.

Contracts: While many vendors may be be nimble enough to transfer contracts as long as accounts are current, more time may be required to transfer government or other funding contracts. In MTA's case, it took more than 9 months to transfer some contracts.

Finances: Set aside sufficient unrestricted money for winding down the organization and make a plan to fund the financial and administrative shut down (final tax return, final audit if needed, final reports).

Documentation: Make a plan for archiving files – if you don't do it now, it won't get done.

ACCELERATE INTEGRATION THROUGH CASUAL INTERACTIONS

It is helpful to be intentional about finding ways for staff to integrate. If locations will be combined, there are a number of opportunities for casual interactions and frequent contact that will help the process move more quickly. However, if the organizations maintain their own space, as was the case with MTA, find opportunities for senior leadership and support staff (e.g., IT, facilities/maintenance, human resources, grants managers) to work from the other location and vice versa. Increasing face time will facilitate assimilation.

Additional Resources

The AIDS United Sector Transformation initiative: Change is nothing new for organizations at the forefront of the HIV epidemic. Only now, thanks to new biomedical approaches and the affordable care act, change is coming on multiple fronts, and it's happening fast! That's exactly where the AIDS United Sector Transformation initiative can help! Offering support through cash grants, technical assistance, reverse site visits, and new resources and products —Sector Transformation provides the expertise and resources to help organizations at the forefront of our nation's response to HIV make the most of new advances in the HIV field and health reform. Learn more atwww.aidsunited.org/st.

The Nonprofit Mergers Workbook: The Leader's Guide to Considering, Negotiating and Executing a Merger, *Part I: The Leader's Guide to Considering, Negotiating, and Executing a Merger,* by David LaPiana, provides case studies, worksheets and decision trees that can be used for internal self-assessment by organizations in the throes of considering or negotiating a merger. The interactive style of the book guides organizations in a) determining if they are a good candidate for a merger; b) identifying and assessing relationships with potential partners; c) navigating potential challenges and roadblocks; and d) navigating the merger negotiation process. The companion workbook, *Part II: Unifying the Organization after a Merger,* is designed to help the merged organizations succeed.

Mission Impact: Breakthrough Strategies for Nonprofits, by Robert M. Sheehan, Jr., guides non-profit organizations through the process of clarifying vision and defining strategic goals to maximize impact. Sheehan's *Breakthrough Strategies Workbook* includes practical interactive activities that operationalize the concepts outlined in Mission Impact.

Nonprofit Sustainability: Making Strategic Decisions for Financial Viability, by Jeanne Bell, Jan Masaoka, and Steve Zimmerman, offers a framework for incorporating financial stability planning into the strategic planning and decision making process. A matrix tool provided within the book helps nonprofit executives develop a plan for allocating resources.

Fire, Snowball, Mask, Movie: How Leaders Spark and Sustain Change by Peter Fuda and Richard Badham. November 2011 issue of the *Harvard Business Review,* available online.) The authors talk about fear as a motivating factor when making big decisions and they suggest a shift from a "burning platform" to "burning ambition."