A Nonprofit Wind-Down

Case Study

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INTRODUCTION

This paper documents the experience of a national nonprofit – Public/Private Ventures (P/PV) – as it closed its operations in July 2012. Based primarily upon financial considerations, in April 2012 the board and staff leadership made the difficult decision to dissolve the organization after almost 35 years as a program, research and evaluation intermediary working with disadvantaged youth in the United States.

Why write about a nonprofit wind down? In no small part, to make sense of what was a profoundly sad experience. But also because it is a legitimate option, and one that does not get considered typically until it is too late. Arguably, it is a viable alternative, and should not be used only in instances where it becomes difficult to raise sustaining funds. In theory, mission-based organizations should be open to the real prospect that they might, in fact, fully achieve their mission and be able to close their doors, or – alternatively – the mission might become irrelevant as external needs and conditions change. For whatever set of reasons, a planned closure, for all of its shock and disruption, is far preferable to a sudden decision that lands in the hands of a bankruptcy court to resolve. We quickly learned that the approach we took at P/PV was unusual, and as we moved through this process we learned much that may be of operational and leadership value to others considering this course of action.

Writing this piece was a challenge, but it was helped along greatly by a community of scholars who reviewed my early work and provided critical feedback on approach. One of the important questions one of my colleagues asked was, "To whom did I feel responsible as we went through this process?" Technically, I of course felt responsible to our board. But I believe that the overwhelming sense of responsibility that drove both the board and staff was to preserve the institutional legacy of P/PV, even as we closed its doors.

What is most troubling about that legacy is that our mission to improve the effectiveness of programs for youth and young adults living in high poverty communities was far from fulfilled. There could be few more important functions in these resource-constrained times than to evaluate the effectiveness and impact of social programs to ensure that dollars are well spent. There are simply too many instances of good money following prior bad investments.

It is indeed what drew me to P/PV in January 2010 – the organization's stellar reputation for assessing not only the impact, but also the gritty implementation elements of programs that serve youth and young adults living in poverty. Ultimately, however, we concluded that we were not able to identify the ongoing support needed to ensure that P/PV, in 2012 and beyond, could live up to its well-earned 35-year reputation for quality research and evaluation. We could not reliably identify sources of unrestricted capital to foster continued creative program design and thought leadership, which were vital elements of P/PV's 'think, action, do' legacy.

We were also admittedly engaged in a significant turn-around exercise, one that required amassing more resources in too short a timeframe for us to achieve greatness again. In broad strokes, we were trying to overcome some classic challenges that may beset other nonprofits, including: inadequate financial management systems; leadership transitions that would have benefited from better succession planning; associated missed opportunities, such as not having a president in place for much of 2009's financial crisis, or to position P/PV adequately during that first year of the Obama Administration; some talent drain over time; and the failure to fully integrate our work across program and functional siloes.

It may be a disappointment to some that this paper does not present a full post-mortem on these issues, but offers instead a reflection on how the decision to close this legacy institution was reached and then executed. The paper does, however, address some of the human experience associated with the decision to close, as while it may not be universally held that *"corporations are people,"*, organizations are indeed shaped and defined by the people who work within and in partnership with them. Culture is much deeper than a balance sheet, and to ignore the human considerations and leadership challenges of such an important decision would be one-dimensional.

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Many people have commented that the announcement in April 2012 that P/PV would cease operations came as a sudden and deep shock. For those of us who were in senior leadership positions at P/PV, however, we can identify the moment and time when the idea was first entertained – well over a year before the ultimate decision to wind down was made.

In the fall of 2010 and into early 2011, we were working aggressively to articulate the vision and approach of P/PV in its current context. This was exciting work, although challenging for us to capture thoughtfully and make accessible to the broader public. With considerable input from the staff as well as a number of extraordinary external advisors, we scheduled a special meeting of our board of trustees on January 27, 2011 to review a near-final draft of what would eventually be released as *Priorities for a New Decade: Making (More) Social Programs Work (Better)*. It was aspirational and energizing work, and our senior team spent most of that day working with the board to ensure that we were all in agreement on key messages that should be conveyed.

As we were finishing the meeting at the very end of the afternoon with a discussion of what remained a very challenging financial position (despite our optimistic future aspirations), one of the board members – who was attending the meeting telephonically – beamed in a stunning question: *"Do we know what it would cost to close down the organization responsibly?"* The answer was a resounding – and irate – "NO!", as it was a question that was heretofore unthinkable, or at least one that we steadfastly refused to consider in our efforts to achieve success. It was also extremely disruptive for our team, as it punctured the mood and spirit of forward momentum we were so aggressively trying to create for the organization. After we broke from the meeting, the senior team met in what can only be described as an emergency huddle to look each other in the eye and confirm that no one was going to jump ship, as the question had profoundly destabilized each and every one of us who had been in the room.

That said, we then embarked on a journey of deep cognitive dissonance. I spent that weekend in calls with lawyers and financial advisors trying to understand what different mechanisms are used to close organizations, and beginning to sketch out potential alternative scenarios and associated costs for P/PV should we ever have to face that worst case scenario. At the same time, however, we were continuing with edits to the white paper – a vision piece that we felt represented any future chance for success. We operated in these parallel universes for the next month, which led us to: 1) release the paper to the public in the first week of March; but 2) make the very grim parallel decision with our Board that we would need to lay off almost half of our staff in an effort to keep ahead of what we began to define as our 'red zone' calculation. The red zone was the amount of money we estimated would be necessary to move our projects to new homes, pay for legal and other associated closing costs, and fulfill our severance policy obligations to staff.

We did not arrive at the layoff decision lightly. At an emergency board meeting on March 6th we began analysis of several different options for the organization's future. Again, had the original question about the costs of a wind down not been posed, we would not have looked at our balance sheet and considered we had 'an emergency'. However, our entire frame of reference had changed with 'The Question', and it now incited a new spirit of urgency. The senior staff and board looked at four distinct options at that March 2011 meeting. The first was to remain a freestanding entity, but to make hard cuts to our staff and operations in order to reduce costs and gain some hoped for running room. The second was to begin explorations of potential mergers with other institutions. The third option was to contemplate becoming a subsidiary of a philanthropic entity – a pipedream, but a potential opportunity existed we needed to run down. The fourth – and most unattractive option – was to move into a 'responsible wind down' of P/PV.

At that March 2011 juncture we moved forward with the first option – building a strategy to preserve P/PV as a freestanding entity. I shared with the Board that there were three considerations that would affect our ability to be successful in that scenario. First, that I would not move forward with the painful layoffs that would be needed unless we were able to raise at least $1 million in unrestricted support in the next month, as that would provide us with essential rebuilding and repositioning funds. Second, I was not sure that we would be able to deliver organizationally on quality work if we *did* proceed with the layoffs, and signaled that we would have to assess that dimension honestly as we proceeded over the coming year. Third, I was concerned with my own capacity (and that of the senior team) to manage the enterprise under such difficult circumstances. Would we be able to preserve enough of the essence of P/PV if we made drastic cuts to the staff? In short, we began to plan for layoffs to be made in early April 2011, still not fully sure that it would be adequate to keep the red zone at bay indefinitely, nor that we could operate with sufficient quality.

With all of those caveats assessed openly with our Board, we did embark on an aggressive fundraising campaign the following week, building upon the release of the *Priorities* paper, and paying visits to our core funders throughout the country. We were able to exceed the core support target with a courageous lead pledge of support from the Charles Stewart Mott Foundation, and then similarly swift and generous core support grants were awarded from the Robert Wood Johnson Foundation, the Ford Foundation, the Annie E. Casey Foundation, and The California Endowment. We approached each foundation with full candor about the challenges we were facing, and were heartened and encouraged by their willingness to invest in our turn-around efforts.

Before we had begun our travels, the senior team had inadvertently begun to dismantle the organization in our own minds, yet those visits and core support pledges provided us with a vital sense of renewal and faith that we might be able to sustain the organization into what we believed was a next generation of life. These grants did, however, mean that we then moved into planning for layoffs, as we knew that these awards needed to be accompanied by expeditious cuts to the staff, changes to our board composition, and continued reductions in operating expenses. It may seem odd given the subsequent 2012 decision to close the organization, but I believe that most – if not all – of us on staff experienced the April 2011 layoffs as the most painful nadir of our time at P/PV. More reflections on this experience are in the final section of this report.

On the one hand, the cuts were necessary from our financial modeling at the time, as of course salaries and benefits were among the most significant discretionary expenses in the organization. The post-layoff experience did inform our assessment of whether it would be feasible to make such dramatic cuts and thrive. The honest answer, in retrospect, was "no" – we lost too much of our middle management. In addition to the project experience and client relationships that these individuals held, it became clear that they were also essential mentors to our more junior staff. It was a gaping hole that we spent the next year trying to fill, yet we admittedly never truly found the capacity we needed in their absence. At the same time, we couldn't get ahead enough on our finances to hire the kind of senior talent that had made P/PV the rich institution it had been in the past. Moreover, it also became that much harder to earn the revenue we had brought in, as when we laid off 18 of our 44 staff there were not enough hours in the day for the smaller staff to earn full revenue on the projects we had in house. This increased our deferred revenue liability, and further challenged the organization financially over time.

One of the goals that we had hoped to build upon during 2011-2012 was to move more aggressively into advancing the collection, analysis and use of data to improve not just program outcomes, but also *organizational* outcomes for youth-serving agencies. It is a vast need in the sector that remains to be addressed, and we had hoped to combine this evaluative and performance management focus with P/PV's deep content knowledge of youth programming. We found, however, that while we viewed our tight content focus as an essential asset for building effective practice and performance management in the field of youth development, it became increasingly difficult to compete with firms and agencies that did not retain such a restrictive mission focus.

We were not able to attract the requisite *ongoing* core support to sustain that highly focused mission, with its unique combination of deep content knowledge and functional evaluation – and hoped-for performance management – skills. Without that dedicated, long-term support, we ultimately concluded that we could not compete with larger evaluation houses working at scale that were not constrained by our content areas, nor did we have the capacity to do more than simply execute evaluation contracts. P/PV at its pinnacle filled a dynamic intermediary role, and one that required dedicated resources to think, create, develop and manage programs *and* provide research and evaluation services. At a time when all organizations that provide direct services to young people in poverty are experiencing heightened challenges to attract resources, we found it was getting that much more difficult to win the hearts and dollars needed to support our one-step-removed intermediary role in the marketplace.

Another constraining factor we were facing over our last year in operation was that more and more funders were ceding the responsibility for contracting for evaluations to the provider agencies themselves. On the one hand, this has its merits, as practitioners absolutely need to be partners in any meaningful evaluation effort. On the other hand, when so many nonprofits are maximally strapped for cash themselves, their ability to pay a boutique firm like P/PV for the quality, talent and overhead that we needed – even with our diminished operational expenses – proved often to be inadequate.

For most of our history, we had enjoyed the benefit of core support that provided us with the ability to execute upon this focused mission successfully. However, as most of that funding dried up many years ago, we had been operating at a deficit (since 2006). What was left of a generous unrestricted Ford Foundation endowment from the 1990s was soon to disappear, as it had effectively been subsidizing our operating expenses for years. Over that year, from April 2011 to April 2012, we did again look at select merger opportunities, as well as explore an effort to concentrate our work more deeply in our headquarter city of Philadelphia, both of which we saw as potential strategies to regain strength and hopefully thrive again.

In one way or another, these efforts ran into dead ends, and when we met with our Board on April 19-20, 2012 we could see the red zone fast approaching, and avenues for a healthy and strong P/PV closing or closed. At that Board meeting we made the decision to pursue one last merger exploration, and if that failed, to move swiftly into a wind-down plan. The merger under consideration could not be achieved within our tight timeframe, and winding down became *the* option by early the following week. This decision was reached in no small measure because we already had done the preliminary calculations to understand just how quickly we would dip below the financial assets needed to close responsibly if we were not clear and swift in our actions.

ENTERING THE WIND-DOWN PHASE

As already noted, the days immediately following the Board meeting involved ruling out a final discussion about possible merger opportunities, and then developing a plan to inform the staff and the public about P/PV's imminent closure. For all of us on staff this was uncharted – and entirely surreal – terrain, and there was much to learn, and quickly. Not the least of which was that we had hoped to remain open through September 2012 in order to complete certain key projects, and within the first few days of the wind-down planning we realized it would not be financially feasible to continue operations beyond July. The finality of trying to spend down to an exact end date while ensuring that we had adequate funds to meet our obligations 'responsibly' was alarming, to say the least. We were able to turn to key funders for either additional core support or flexible repurposing of grant elements in order to ensure that new needs – such as increased communications consultancies in order to meet abbreviated publication deadlines – could be fulfilled. We were met with great support and flexibility by most of our funders, which made an otherwise frightening passage more navigable.

The immediate steps in that first week were to develop a list of all of the partners and funders with whom we needed to speak directly before any press release was issued, and of course to plan for our simultaneous meeting to inform the staff. The staff was essentially given two months notice when we shared this grim news with them on Monday April 30th, as we agreed that the majority of staff would transition out of the organization at the end of June, with a skeletal crew to remain to close down operations in July. An immediate challenge was to ensure that staff would stay with us until the end of that period, as we knew that the work involved in moving and closing projects would be extraordinary. We also knew that it would be difficult to keep staff motivated under these circumstances, which became its own unique leadership dance.

When the press release went out the week of April 30th, there were a number of calls to field with reporters, and of course a tremendous number of questions from our funder and provider partners. One thing we had not anticipated was the degree to which our news would trigger external panic. It became clear immediately after the press release that most of the public assumed that our closing would be done in bankruptcy (which was decidedly *not* the plan), and that all work would cease immediately. The notion of a planned closure was not a familiar one, and we were following on the heels of other notable and sudden closures in the non-profit sector that were managed by bankruptcy courts. We were largely able to manage those concerns through a seemingly endless number of individual calls and explanations, and we also launched a series of blog posts in an effort to keep the public informed about the steps we were taking and what we were experiencing and learning as we began to wind down the organization.

In addition to a remarkable outpouring of concern and sadness from a great number of people, one of the most heartening aspects of these early weeks was that many local and national research organizations reached out to us to see if they could help place our staff. Because we were in a race against time, we deeply appreciated that several firms traveled to P/PV to interview all of our interested staff, which allowed individuals to remain on site to focus on the work at hand within the fast pace of our planned closure. This was extremely efficient for us, and added a much-needed energy to the place, as it was clear that there was strong external interest in our staff.

This was, in fact, one truly positive thing that we could focus on – seeing that everyone on the staff placed successfully into new opportunities. All of us shared the broader goal of closing down P/PV responsibly and with our legacy held high, but there were too many uncertainties for us to have strong faith in the process as we proceeded. We simply did not know that we would be able to achieve all that needed to happen for the wind down to conclude responsibly, which left us all with a gnawing anxiety. Seeing staff placing into other jobs, however, was concrete and gratifying, and provided a healthy counterbalance to the emotionally devastating work of deconstructing a renowned organization, and giving away or closing hard-won projects in which staff had a great deal of professional and personal investment. Our internal knowledge management system – "Ziggy" – became a central resource for posting job opportunities and exchanging leads among staff. In addition to serving as our internal job fair platform, Ziggy provided a vital central resource to address staff questions as and when we uncovered answers. For example, we posted templates of grant assignment agreements for staff to access, and kept an ongoing Q&A section on implications of the closure across a range of issues.

We identified legal counsel to work with us through this uncharted terrain, and within the first two weeks of our announcement we generated a lengthy list of questions for counsel (see Appendix A). The first and most central concern we had was to understand the mechanics of transferring grants and contracts to other organizations. This proved to be a very time-consuming, project-by-project process, typically involving many actors and multiple sets of paperwork and legal review.

The first issue that needed to be examined in each open contract was whether we had the legal ability to assign the work to another agency. This involved reviewing every grant or contract award letter individually with our attorneys. In instances where we did have assignability rights, we had discussions with the responsible project leader from the staff to determine where there might be a natural home for continued work. As one would imagine, in some instances these homes were relatively easy to identify – in others, it was not such a simple decision. Compounding the challenge, we worked with every funder (in some instances there were multiple funders for a given project), to try to determine a mutually acceptable new principal investigator for each project (although in some instances our staff were able to remain responsible for their projects as consultants after P/PV closed). In cases where we did not have assignability rights, we needed to identify a date by which time we would stop work on the given project in order to calculate and return the balance of funds to the funder so that they could re-grant the work directly. This was, by far and away, the most pressing and challenging element of our work in May – and into June – and no projects could be transferred until we had at *least* three parties submitting signed paperwork (and in many cases far more): P/PV, the funder(s), and the new host entity.

In the first couple of weeks after announcing the wind down, we considered whether it would it be best for us to hire a firm to centrally manage and coordinate the logistics of closing down operations for us, given the many questions that arose for which we had no answers. We ultimately gained confidence that working in partnership with our attorneys – and with the diligence of staff, particularly our director of finance and administration –we could ultimately determine the answers to these questions without external wind-down consultants, and preserve those resources for other unanticipated expenses.

There were an overwhelming number of questions that needed to be addressed, which are detailed in Appendix A. These included the detailed questions we presented to our attorneys in early May – and our eventual answers are provided in the appendix *in italics*. Some of the issues we grappled with are particular to a research organization – such as the legal and ethical management of our data sets – but most other issues are relevant for any organization that embarks on a wind-down path.

Effectively, we had 14 weeks within which to work to wind down the organization by July 31st. None of us had any experience with this process – nor, might I add, would any of us want to undergo anything like this again. A few notes from the flow of these critical weeks – both operationally and emotionally – are laid out in Appendix B to spark the imagination of funders and partners who may well encounter these conditions again. This Appendix is more impressionistic, but it captures a very real sense of the wind-down process.

With the details captured in the appendices, the next section provides more general reflections on the wind-down experience.

LESSONS LEARNED AND REFLECTIONS

Operational

As already noted, external partners' inability to conceptualize a "responsible" closing caused some panic, including threats that people would pull or close projects prematurely. This placed us in sometimes contentious negotiations with vendors and partners to ensure that we could extricate fairly. Despite the lack of regular and positive work, there were times when we realized we were exerting tremendous energy, albeit fighting so very hard only to kill ourselves – a true end of life battle.

One element we had not anticipated was that we might have difficulty collecting upon accounts receivable once we announced our planned closure. In hindsight this might have been something we should have expected, as it became clear to us that in difficult economic times some organizations might see this as an opportunity to renegotiate or revisit grant and contract terms, which led to some fairly harrowing discussions. Ultimately we were paid for work we had done by every single contractor (although one took almost a year to chase down!), albeit sometimes at renegotiated levels because of the perceived disruption caused by our terminating or moving projects.

Our funder partners were critical in the wind down, and not surprisingly, some funders had greater ability to grasp what we were going through than others. For those who stood by us through the wind down – and who even provided us with additional resources to help us get to the finish line intact – we could not be more grateful. They had the capacity to undermine our vision for closing responsibly, and enormous power over our ability to execute this transition successfully. The relief and permanent loyalty engendered by those funders who rolled up their sleeves with us will never be forgotten.

We also had learned in the year leading up to the decision to close that you *can* cut an organization too deeply, as our experience with layoffs in April 2011 ultimately revealed to us. Unfortunately, in these times many other nonprofits are in perhaps less dramatic ways slowly but surely reducing their core organizational capacity. As Paul Light has described, there has been a steady *'hollowing out'* of the nonprofit sector. It is a critical time for funders and nonprofit leaders to assess at what point an organization can no longer deliver upon its core mission with quality. Slow erosion of an organization's competencies occurs, and much of value is lost as a result.

Leadership

I began writing this paper at the same time that Super Storm Sandy struck the East Coast of the United States. Watching different localities mobilizing without hesitation to rebuild after the storm, I began to think about the new leadership qualities that will be required of our world. Won't it become an increasingly essential function of governance and leadership to know when to retreat and give up hard-fought ground? Won't this require an entirely different orientation from that of building and conquering new territory? Similarly, I ask whether those same questions of leading for retreat don't need to be asked among our nonprofit leaders in the coming years. Can there be planned consolidation within the nonprofit sector – or as Mayor Bloomberg stated in preparing for Hurricane Sandy, *"planned failure"?*

A colleague wrote to me during the last very difficult month of July, and shared the following observation: *"You inherited a terminally ill patient, and provided hospice care."* As I thought about her comment, and my own personal experience of seeing my father through his last year of life in 2010 (including finally moving him into hospice care), I found the metaphor rang true for me. Once it was clear that we were in a terminal situation, we had made it our singular goal to retreat while alleviating as much pain and suffering as possible – in effect, trying to die with dignity. This became our collective leadership focus at P/PV, and it is one that we were ultimately successful in achieving. Difficult as it was, we had clarity of purpose, which distinguished this passage from the pain of our lay-offs a year prior. Nor did we have survivor guilt this time around – we were all terminal.

That said, it was completely counterintuitive to give away all that we had built. As professionals, we spend our careers *building* – it is hard to describe the inverse and disruptive psychology of releasing projects we had fought so hard to win, cared deeply about, and wanted to see conclude responsibly and have the impact we desired. What happens when the work stops and there is nothing new to chase? All of our jobs changed profoundly. After the initial flurry of concerned calls, the phones stopped ringing, except to sort the details of invoices, project termination agreements, and questions from confused partners and vendors. One way or another, many of us struggled with our emotional, physical and mental health during this period.

On the brighter side, the unexpected joy of seeing that almost all staff landed in new positions was invigorating. It was, of course, bittersweet as we had indeed built a strong team environment, and had achieved the kind of culture that was necessary for us to work most effectively across previously siloed content and skill areas. The staff was a marvel to me, as they had to work as hard as they ever had before, but on work that had no future for us. They did it because they cared deeply about P/PV and its work – our collective responsibility to the legacy kept staff inspired and motivated. Staff executed the wind down with consummate professionalism, all the while facing enormous personal insecurity about their futures and employment opportunities. I will never forget the level of professionalism and dedication they showed in those final months.

Reflections on the Nonprofit Sector

As we entered into the wind-down phase I was very mindful of the fact that we had only a sliver of time available to us before we dipped below the 'red zone', and would likely not be able to surface above it again. We had already cut our operating costs considerably, and I understood that if we didn't move – and swiftly – we would be on the awful treadmill of raising funds just to stay open, but with no opportunity to thrive, or to make a proactive decision that we could not be strong enough again to execute the work at the quality level that the organization deserved and our clients expected.

It is this last point that concerns me deeply about the nonprofit sector. Whereas we've all observed the experience of large corporations and banks that were deemed "*Too Big to Fail*" in this last recession, I think the underside is that there are now perhaps too many nonprofits that are in effect "*Too Weenie (small) to Fail*." Too many organizations have to chase money just to make payroll from week to week, but no longer have the ability to operate at the level they know they need to function in order to be truly successful against their respective missions. These agencies effectively cannot *afford* to stop that mad chase, even as they suspect they will never be able to thrive again. For them it is a constant prayer to keep creditors and bankruptcy at bay – this is a debilitating, and potentially impossible, place from which to lead.

Funders can perhaps engage differently with nonprofits that are teetering on the brink of having lost their effectiveness, and encourage open dialogue about what would *really* be necessary to foster continued growth and meaningful organizational contributions. This might include considering mergers or collaborations with other organizations, and helping organizations to understand and plan for such a potential. Or, alternatively, it may be necessary to help them provide hospice care when it is clear the prognosis is terminal. Instead, too much of the fundraising game now is project by project, with insufficient support for the core operations of nonprofits. A more rational and open appreciation and conversation about the true costs of managing organizations with high quality and the ability to achieve goals is vitally needed.