



## Nonprofit Dissolution: What to do When Closing the Doors

by Lee Bruder



The purpose of this article is to outline the steps and tasks involved in dissolving a nonprofit organization. And, it may serve as a guide for establishing a protocol for “an honorable and respectful transition for all.”<sup>1</sup> Our approach is based on four essential principles:

**1** Like any organizational initiative, dissolution should be carried out with interpersonal integrity.

**2** A successful dissolution will add to the organization’s legacy and will contribute to a lasting and positive collective memory of the organization.

**3** Setting the groundwork is essential to a successful outcome. Many authors and theorists have addressed this stage of the process. The Gestalt International Study Center addresses balancing the intimate with the strategic;<sup>2</sup> numerous authors talk about the importance of attending to group dynamics; Eunice Parisi-Carew and Ken Blanchard offer the team charter;<sup>3</sup> and a model of governance as leadership<sup>4</sup> has also been developed. But no matter what it’s called or how you choose to address it, we are convinced organizations must pay as much attention to the process of laying the groundwork for closure as to the tasks of the dissolution itself.

**4** During this process an organization should rely on a network of professional nonprofit experts: legal council, human resources support, and dissolution planning and implementation. While finances may be paramount in the minds of board members and senior staff, relying solely on internal resources may well lead to a less-than-satisfactory outcome. Using expert input during the dissolution process can better ensure that all aspects are thoroughly addressed, and that the board and staff groups are included in the right way, at the right time.

**D**issolution, or the closing down of an organization in its current state, is more common than one might think. When an organization seriously considers ending its life, it is a difficult and complex process. It is a time of mixed and strong emotions for those involved, including the board, senior staff, administrative and line staff, partners, clients, and donors and other stakeholders.

An organization has to make the difficult and momentous decision to close for two kinds of reasons:

- involuntary reasons (an external shutdown is required, usually initiated through the

state’s attorney general office or the office of the secretary of state) and

- voluntary ones (e.g. mission has been achieved, a financial crisis has taken place, board and staff have exhausted their energy and ideas, or internal interpersonal disputes have overtaken the organization).

By federal and state law, nonprofit organizations should outline in their articles of incorporation and by-laws all tasks and responsibilities regarding dissolution, and these policies must be followed. Unfortunately, most nonprofit organizations have not drafted such policies and procedures.

1 • *The Five Phases of Board Development*, by Lee Bruder, www.leebruderassociates.com, 2004.

2 • *Connecting Strategic and Intimate Interactions: The Need for Balance*, by S. Nevis, S. Backman, and E. Nevis, *Gestalt Review*, 2003, Vol. 7, No. 2.

3 • *The One Minute Manager Builds High Performing Teams*, by Blanchard, Carew, and Parisi-Carew, William Morrow and Co., 2000.

4 • *Governance as Leadership: Reframing the Work of Nonprofit Boards*, by R. Chait, W. Ryan, and B. Taylor; BoardSource, 2005.

The process of closing a nonprofit organization takes many months. It is important that those implementing the dissolution are prepared for this time frame and are equipped with responses to questions from the community about the status of the process.

### The Decision to Dissolve

An organization's board and senior management must be ready to pick up and carry the burden of this difficult and emotional process; coordinate; and follow through on each step. This is a critical time for skilled leadership and governance, and generative thinking. Thus, the decision must be well informed and thoughtful. For the purposes of this article we will assume that an organization's board of directors and key staff have exhausted all reasonable alternatives (restructuring and downsizing, changes in leadership, mission refocusing, merger or acquisition, etc.) and that these deliberations have been documented in official meeting minutes.

The body vested with the power to make the final decision to discontinue the organization's affairs should be identified in the nonprofit organization's official documents (e.g. articles of incorporation and bylaws). The decision must take place at an official meeting that is duly called and documented.

We recommend that an organization's board and key staff make the decision to dissolve privately. In the case of a nonprofit membership organization, the board must make recommendation to membership for its consideration and approval. In most cases this means that the information will then "go public." As the dissolution plan develops, key players in the process should keep these information management issues in mind.

While we often advocate transparency, in this case we advise strict information control. The board and key staff must feel safe in exploring all issues without fear that the community or other staff will prematurely hear about plans that may never be implemented. You can imagine the effect on an organization's credibility if the word were to get out that it was closing its doors, only to have a last ditch fundraising effort become highly successful. In the mean time, staff may have launched job searches, and key community partners may harbor serious doubts about the organization's ability to deliver quality services. To ensure solid information management the question of where meetings take place is also a factor. As board and senior staff explore the possibility of dissolution, there will likely be strong disagreement, frustration, and sadness. "Sound carries," and administrative and line staff suspicions may increase because of additional meetings among power groups. Consider the possible ripple effects on the process.

Once the decision has been made, board and key staff must have the time to debrief. Throughout the entire process those who make the decision as well as the implementation team must have ample time and space to address their thoughts. Otherwise, they cannot adequately support the administrative and program staff. Left unattended, emotions can give rise to doubts and dissent, in turn, create additional problems.

After an organization's board and senior staff have attended to the above tasks, and prior to implementing the dissolution process, it is time to engage in planning. Whenever possible, nonprofit dissolution should not be implemented prior to a solid period of thought and planning. Every board member must recognize that this period of intense

work must be completed as soon as possible to minimize leaks and the inevitable increasing concern on the part of staff members who are not privy to the proceedings. Board meetings should take place more frequently. It is critical to establish secure e-mail procedures with unanimous agreement among those involved. Frequent reminders about confidentiality guard against laxness.

An organization's board should identify a planning group that includes the board chair and CEO as members. The planning group will be tasked with creating a detailed draft of the plan for presentation to the board. In addition, because of dissolution's legal implications at both state and federal levels, at this stage of planning we recommend an organization's board engage legal council for the duration of the implementation process.

### Developing a Comprehensive Plan

A plan for nonprofit dissolution should be translated into a formal document that includes several sections. It should be strategic and tactical in nature, and must cover all main areas of the process.

#### DEFINING STRATEGIC GOALS AND OBJECTIVES IN NONPROFIT DISSOLUTION

The dissolution plan should have strategic goals with objectives that cover the following:

- Areas of impact
- Asset distribution
- Preserving organizational legacy
- Announcements and communication
- Legal filings

Each strategic goal should have specific objectives, each with action steps, time frames or target dates, and lead or responsible personnel.

### Informing Interested Groups

The planning team should identify all the groups and individuals who must be informed about an organization's closing. Each identified stakeholder should have an articulated method of being informed, along with a designated person or group to provide the information and, if needed, required support.

#### STAKEHOLDERS TO INFORM AND PROCESSES IN ORGANIZATIONAL DISSOLUTION

- Community at large (this may fall under a public relations goal)
- Participants and Clients
  - How and when to inform
  - Referral to alternative services
- Staff and Human Resources
  - Recognizing staff
  - Job-placement supports
  - Determining severance packages (within legal and financial bounds)
  - Deciding on last day(s) of work (will all employees leave at once or be phased out?)
- Funders, Donors and Sponsors
- Board of Director and Advisory Groups
  - Honoring current and past board members, and other volunteers

### Distributing Assets

The critical task of disposition of assets must meet the standards of the Internal Revenue Service Code and any applicable state laws. In general, a nonprofit's assets may not be distributed all or in part to the board of directors, staff, or other organizational insiders. Most states require that assets of a nonprofit organization are distributed to other charitable organizations or governmental bodies. These laws ensure that assets amassed for charitable or other nonprofit activities continued to be used for similar purposes.

The asset distribution component of a plan should delineate how all organizational assets will be distributed to other organizations or parties, including programs, cash, investments, equipment, supplies, and facilities. An asset distribution document should also include an organization's programs and services as an asset. It may be able to identify other organizations that can adopt its programs, especially if a dedicated funding stream can be transferred with the program. Thinking through which programs can be passed on may also keep some staff employed and part of the organization alive. This can be part of preserving an organization's legacy. In the event that the preferred plan for distribution of assets doesn't work out, it's also prudent to develop an alternative plan.

### Preserving Organizational Legacy

Any nonprofit organization that has done marketing addressed the question, "What makes us unique?" Periodically, it's a good idea to ask "What would this community (state, region, etc.) be like if we didn't exist?" Identifying the contributions of an organization to its community, is the first step toward understanding the legacy an organization might leave to its constituencies. Once it clearly articulates its contributions, it must assess the depth and breadth of its impact. It is the real impact that constitutes

the legacy, not just the effort of making a contribution. This information is an important part of an organization's public relations and celebration.

### Communicating Dissolution to Stakeholders

This portion of an organization's plan details how an organization controls the release of sensitive information to each of the groups identified under a dissolution plan's section on areas of impact. When it comes to communicating this kind of information, we all live in a "small town." So, dissemination must be orchestrated and coordinated. This part of the plan outlines to all involved what they can say, to whom, and when. It should also address what an organization will do if this aspect of the plan is violated.

In addition to an information-release schedule, you may want to institute mechanisms for responding to concerns and questions from the parties involved. Implementation is pressurized and hectic time. As an organization works to implement the myriad details of dissolution, the task of responding to questions and concerns can get left in the dust. Thus, having a clear response plan is helpful.

Finally, we strongly recommend creating written communication procedures that include the board, staff and other key personnel and organizations.

<b>Dissolution Goal #1:</b> The organization will estimate and address the potential and real results of dissolution on various groups in order to minimize any negative impact. Note: This goal will require a detailed time line executed in a highly coordinated manner.			
<b>Objective #1:</b> Communicate with community partners to anticipate gaps that our closing might create and help them identify alternatives.			
<b>Action #1:</b> Meet individually with local superintendents of schools to announce our closing and listen to concerns			
		<b>Key Actor :</b> CEO	
		<b>Target Date:</b> 00/00/0000	

## Implementing Dissolution

Clearly the two key guiding documents for implementation are the nonprofit dissolution plan and a timeline. As mentioned previously, these documents must incorporate all federal and state requirements.

### Creating a Time Line

Coordinating the timing of each action in your plan is important. So, in the planning stage ensure that target dates are feasible. A time line is derived directly from the target dates of the plan. We suggest developing a Gantt chart or a true time line. Regardless of the format, the time line helps those involved see how each element of the plan relates, interacts, and overlaps.

### Filing Legal Documents

Generally, an organization's first step in the documentation process is to file articles of dissolution with a state's attorney general office and/or office of the secretary of state. The office then issues a public notice. This action impacts the organization's plans for information control. Check with the IRS regarding requirements for your type of nonprofit. You may also need to notify the appropriate officials in your city and county. After filing these notifications, the organization continues to exist until all existing invoices and other business including legal procedures are completed. All other business, such as signing contracts and running programs is no longer permitted.

## Celebrating

Honorable and thoughtful leave-taking involves acknowledgment of the result

of people coming together for a common cause and shared values. During the process of dissolution, it is extremely valuable to reflect on the history of the organization and to create rituals that recognize the hard work and dedication of those who have been involved.

In addition to recognizing individuals, it is also important to recognize the contributions of the organization as a whole. We are a culture of peoples and stories. Celebrating the story of an organization that is about to close is an important tradition that is all too often forgotten.

Remember, this process can be tricky to pull off. Some may be tempted to paint a rosier-than-realistic picture of an organization, or its staff. This kind of celebration can be bitter sweet and stimulate anger and sadness. The key is to plan different rituals for different groups and to be honest and appropriately open given the group for which this process is intended.

## Closing

If your organization has considered dissolution, consider these steps and guidance here as an outline for the plan you ultimately put in place. Stressful challenges tend to exaggerate the best and worst of the human condition. Leaders can expect that during the process of dissolution, all aspects of organizational culture will heighten. The strengths and the trouble spots between individuals, roles and position, and divisions and groups may need rapid, clear, and direct attention. Calming any rough internal waters as quickly as possible improves the potential for a successful outcome.

The IRS categorizes many different types and subtypes of nonprofit organizations, which have a range of sizes and missions. We do not believe in a one-size-fits-all approach, but we hope that this article offers guidance and support to organizations that may be on the cusp of dissolution. •



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### ABOUT THE AUTHOR

Since 1989 Lee Bruder has been a director and trustee on over a dozen boards. He has two decades of experience as senior manager and supervisor/coach. He appreciates the challenges and struggles facing nonprofit organizations and is dedicated to assisting organizations achieve optimal performance. In addition to organizational development services, Lee provides professional coaching to executives and managers<sup>5</sup>. Lee Bruder Associates is available to help your organization understand your current developmental challenges and to help you grow to the next step of efficiency and effectiveness, including merger or dissolution.

Examples of the consulting services we offer include:

- Dissolution and Merger Facilitation
- Strategic Planning and Mission Check
- Board Member Training and Orientation
- Board Roles, Responsibilities, Policies and Procedures
- Senior Staff Coaching and Leadership Development
- Team Development
- Conflict Resolution
- Board/Executive Director: Roles and Relationship