

Putting your Corporate Structure in Order Can Have Strategic Benefits

Structure Important for External and Internal Reasons

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A number of Alliance members have expressed interest in mergers, acquisitions, affiliations, and joint ventures with other agencies. Such transactions can be important strategic tools for promoting long-term success or even survival, so they are worth considering in your planning and as opportunities arise.

In my experience, institutions that have been most successful in their external relationships are those that put their own structures in order before venturing outward. A sound internal corporate structure facilitates external transactions and—significantly—tends to produce better results. I've also learned that organizations can seldom fix internal problems with external solutions. Following a merger, acquisition, or affiliation, any internal structural problem will usually remain until corrected by a successor board or manager. In such cases, the transaction merely shifts responsibility for the correction without accomplishing it.

Therefore, it is important to examine your corporate structure periodically to determine that it not only facilitates your current internal operational goals, but also supports the external relationships contemplated by your strategic plan. Both objectives are important.

What Are Corporate Organization and Reorganization?

Whether done to improve strategic positioning or internal operations, corporate organizations and reorganizations generally involve one or both of two types of transactions: the creation of new legal entities or a change in the relationship of existing entities.

As an example of creating new entities, an organization that operates multiple programs may find it advantageous to divest one or more of them into a separate corporation, so that two or more corporations exist where there was one before. Or an organization contemplating a new program might consider whether incorporating it separately would be better than folding it into an existing operating entity. Where a group of loosely related corporations have developed over time, they may benefit from a more formal structural connection, either directly among themselves or through subordinating some or all of them to the common control of a newly created parent corporation.

Reasons to Reorganize—Or Not

In broad terms, corporate reorganization should either solve a problem or yield an advantage, strategically or operationally. Without a valid purpose, restructuring is unlikely to accomplish much and may even be counterproductive.

One valid reason why agencies reorganize is to achieve a separation. Typical purposes of separation include insulating the assets from operating liabilities (e.g., by transferring endowment funds to a newly formed foundation), limiting regulatory intrusion by separating functions overseen by different governmental agencies (e.g., by placing differently regulated existing or new activities in separate corporations), or enhancing government or management focus by separating people with specialized capabilities and interests (e.g., by placing them on boards of corporations dedicated to a narrower

range of activities in which they excel, such as transferring fundraisers from the board of a provider to the board of a foundation.)

Other valid reasons for reorganization include centralizing control over multiple entities to improve their coordination, eliminating unnecessary duplication, and/or streamlining governance and management. And as suggested above, reorganization is sometimes considered for strategic positioning as a prelude to a merger, acquisition or affiliation. Systems with parent holding companies already in place tend to have an advantage when discussing an affiliation with an organization that does not. In those situations, the stand-alone corporate participant usually ends up folding into the more mature system of its affiliation partner. While efforts can be made to equalize the players, the more developed system is likely to be adapted for the end result, and it will tend to dominate.

Just as there are typical good reasons to reorganize, there are also reasons that usually do not support the effort. For example, fads are often unproductive. Because everyone else is doing something or a consultant has a package that others have adopted doesn't mean that it will be beneficial for you. Corporate restructuring is seldom a good way to resolve succession or other personnel issues. The structure will survive after the people for whom it was created are gone, at which point it may be unhelpful or worse. Limited short term non-recurring benefits, such as small grants, may not justify the costs and complications of implementing and sustaining a larger corporate system.

Every organization is different, and every organization should examine itself periodically to determine if it is optimally—or even appropriately—structured, for its present operations as well as its foreseeable future.

The Reorganization Process

Assuming that a good reason for reorganization exists, successful implementation is most consistently achieved through a disciplined process involving up to seven phases:

- 1) planning and preliminary evaluation, in which the internal and external situation and needs of the organization are examined;
- 2) selection of a presumptive organizational design, including types of entities, nature of relationships among affiliates, governance structure, management organization, and capitalization;
- 3) testing the design for implementation feasibility and consequences, to confirm that it can be done, how to do it, and that it should be done;
- 4) preparing formal documentation for new and existing entities, as well as applications for third party approvals;
- 5) obtaining internal corporate approvals from boards and members;
- 6) obtaining external approvals, if any are needed, from government regulators and non-governmental third parties; and
- 7) finalizing the plan through formal filings as necessary.

The entire process can take up to a year or more, depending upon many internal and external factors.

Prerequisites for a Successful Reorganization

The prerequisites of a successful reorganization are a valid purpose, a well conceived and feasible plan, and follow-through both during and after the implementation process. Remember, a reorganization is more than a collection of legal documents. Changes in practice will be required to make the transition effective rather than merely symbolic. A well conceived and executed corporate structure can materially contribute to an organization's ability to govern its current operations and position itself for its strategic future.