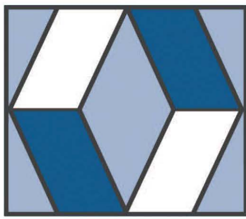

E-PARCC
COLLABORATIVE GOVERNANCE INITIATIVE
Syracuse University
Maxwell School of Citizenship and Public Affairs
Program for the Advancement of Research on Conflict and Collaboration

Trust as an Asset:

The MACC Alliance for Connected Communities

Part B

As the MACC board members considered whether or not to pursue the vision of a managed service organization (MSO) in the tight, fiscal environment facing Minnesota nonprofits, they had to consider many trade-offs. While the MSO idea had taken up much of their time recently, other projects and other means of collaboration could yield benefits with less effort. The MSO was *such* a big idea, after all, that most of the 17 MACC agencies were hesitant to adopt it. If the real purpose of MACC was to deepen the idea of collaboration, perhaps time would be better spent moving ahead on its public policy platform. In fact, the alliance had found rare unanimity on the issue of voter engagement. It could use the close contacts that its agencies had cultivated among underserved, underrepresented populations to educate people about the importance of voting and to turn out the vote in greater numbers. Unlike the consolidation of administrative functions, this effort could be started without much up-front investment. The budget for the 2004 "Community Power Vote" campaign was only $79,500.

Alternatively, MACC could devote more resources to an innovative partnership developing with Edina Realty, a large, locally owned real estate firm that, in its own field,

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faced many of the same threats and opportunities as MACC. For example, Edina Realty realized that the ethnic composition of its sale force, like the managers and line staff of MACC, did not mirror the Twin Cities at large. Just as MACC was an alliance of independent agencies that grew stronger when they articulated common goals, Edina was an alliance of independent contractors that gained credibility by associating with a greater whole. If the fundamental purpose of a human service agency was to get people out of poverty, why *not* work through a realty company to make it possible for more poor people to buy their own homes? The benefit of the partnership to Edina Realty was more customers; the benefit to MACC was greater exposure and a new way to further its mission.

While Jan Berry and the MACC Board continued to explore these options, however, the sheer promise of the MSO continued to be compelling for some. In various discussions, agency directors grappled with the risks associated with both the "steady-state" and "smooshed" paths to implementation. In a world with unlimited time and money, a steady-state approach would provide more seamless implementation. It selected just the right system for each task and carefully built consensus among member agencies around those systems. But funds were not unlimited and time was of the essence. In that context, the board decided to proceed with the smoosh. They would select a system for each function—one financial system, one information technology platform, and one human resource framework —and require each agency to adopt it.

With the clear recognition that not all MACC members should – or probably would – join the MSO effort, they formed subgroups of senior managers interested in pursuing this idea in practice. By January 2005, six agencies—Pillsbury United Communities, Family and Children's Services, Phyllis Wheatley Community Center, Plymouth Christian Youth Center, Tubman Family Alliance and MACC itself—began detailed planning to start operations one year later. Notably, this "early adopter" group also did not include Neighborhood House, one of MACC's most involved members. The hesitation did not come from a lack of appreciation of the design or the strength of the collaboration. Rather, the organization was in the middle of moving into a brand new, 93,000-square foot community and administrative center. "The ogistics that we were dealing with were huge," remembers Dan Hoxworth, Neighborhood House's president. "It wasn't time to take on anything." By May 2005, the early adopter group also had lost one of its members, the Tubman Family Alliance. Because of financial stressors, Tubman could not find the resources to participate in the experiment. Tubman also had wavered from the start about the decision to implement the smooshed rather than the steady-state model. It wanted the best to begin with and felt uncomfortable with the incremental approach.

Planning the Details of Implementation

The leadership did not underestimate the amount of work they needed to realize their vision. The five agency directors began to meet every other week to clarify their goals and puzzle out the legal status of the MSO. It seemed clear that they wanted to develop a structure

that could drive down management costs, allow agency heads to focus on strategic activities rather than details of finance or a human resource crisis, and manage growing risks without undue costs. They wanted a way of improving staff expertise in administration, so as not to starve any of the three layers of operations management. They also needed a legal structure that would allow them to place their shared values front and center. And significantly, they needed to dive into the details of the various systems that would be involved.

For this last task, they turned again to the capable committee of Chief Financial Officers (CFOs) that had developed the analysis and implementation options. Stan Birnbaum took the lead in selecting an information technology platform. Two other CFOs from the original design group, Dan Ursin from Pillsbury United Communities and Mike Johnson from Plymouth Christian Youth Center, each assumed the leadership of developing the financial system and human resource policies. Although cost savings was not the initial goal, it was always valued. The CFO group knew that complexity drives up costs and that some savings would be felt as they implemented a single system. For example, the agencies ultimately would save money as they moved from five financial statements to one. As a result, they ecommended an aggressive schedule for co-locating the MSO staff and move the systems changes forward. This would be the first step towards a pricing model that ultimately would help the budding MSO break even on the services it was providing its members. They also had to consider design questions. Some services could be provided on a "flat fee" basis. For example, the MSO would charge its members a certain percentage to provide a service, such as their annual budgets. Other services could be provided on a "professional" basis, with charges based on planned or actual time spent. The nature of the services, though, really influenced how the price would be set. Finance services were easy to define: basic financial management services were flat fee, but any kind of analysis, forecasting, or research would be charged professionally. Technology services were more difficult. If a senior manager were engaged in defining IT "governance" issues, for example, was that a flat-fee task or a professional one?

In addition to these concerns about operations and cost, the implementation planning groups grappled with the human challenges of consolidation. All recognized the challenges inherent in trying to smoosh people used to working in a variety of organizations, with their unique missions, chains of commands, and cultures. Unless handled carefully, legal action could result when different supervisors took over. As Tony Wagner, CEO of Pillsbury United Communities, worried, "What if one of my employees doesn't like the performance evaluation that he or she gets from Stan Birnbaum?" As a member of the MSO, however, Wagner realized that he would need to support the new management and structure, even at the risk of alienating longstanding and loyal employees.

Throughout the summer and into the fall of 2005, the two upper-management teams—the CEOs and the CFOs—met regularly. The CEOs weighed the strengths and weaknesses of various legal structures and the CFOs selected systems and ironed out details of the move. By September, the five organizations entered into a formal joint ventures agreement that specified important details of the MSO. Governance was clarified. The agreement established a formal advisory board with three representatives from each organization – the CEO and two members

of each board of directors. It also created an escape route for any of the organizations, allowing them to leave the partnership before July 1, 2006 without any financial penalty. After that point, the collaboration would require longer-term commitment in order to be viable. Finally, the agreement formalized the name of the effort. Rather than calling their creation a "managed service organization," they decided to call it the MACC "Commonwealth," a name that conveyed all the richness of the collaboration. They also hoped that this naming would help to market the idea to key stakeholders, such as private foundations who would be critical in making the vision a reality.

The MACC board, as a whole, also considered the overall cost of the Commonwealth because it influenced the ongoing operations of the collaboration. The members all committed themselves to raising money for both components: the MSO and the ongoing operations. They were committed to supporting the affinity group process and the joint public policy work. They also wanted their staff to continue to build relationships with non-traditional partners, such as Edina Realty. To raise money for these goals, they contacted local foundations, drawing upon the relationships earnestly cultivated for years when funding their own agencies. Over three years, they estimated that the Commonwealth would cost between $900,000 to $1 million, allowing for costs that would occur when additional organizations joined the effort. The launched a formal campaign and were pleased when the Otto Bremer Foundation, a modest-sized foundation in St. Paul, stepped forward to invest $300,000 in the Commonwealth over three years. This investment encouraged other, more sizable local foundations to contribute to the campaign.

Throughout the fund development process, foundations regularly asked about cost savings, still understanding the MACC efforts through the trade association model. While the advisory board felt that costs should decrease over the longer term, the Commonwealth was not only about saving money. Certainly the economies of scale and reductions in complexity that it would achieve would allow the Commonwealth to provide member services more efficiently and reduce the costs for members. Outside vendors, in areas like telecommunications or human resources, also might be persuaded to charge less for their services. Yet, fundamentally, the advisory board increasingly recognized that the experiment focused upon collaboration and deeper lessons—about trust, sharing, and community. They began to realize that the longer-term savings would come from fundamental changes in operations because of the experiment itself. They would arise from a new heightened awareness of when it is important for the organizations to compete and when to collaborate. As Birnbaum reflected, "Probably one of our biggest lessons is that trust and the shared culture that we were creating is a critical, essential resource." In the spring of 2006, more than a full year after the process of consolidation began, the Commonwealth issued a "fact sheet" that put this principle most succinctly: "The theory behind the MSO is that the cost of operating sub-optimally is higher than investing in efficiency." In other words, the initial costs were not as significant as the eventual costs of *not* investing in the MSO.

The *Realities* of Implementation

As long as the work remained at the planning stage, it was possible to idealize it. But when the time came to actually select a physical space for the new organization, it quickly became clear that simply calling it the MSO a "Commonwealth" would not decrease the pain felt by the staff experiencing change. Neither Plymouth Christian Youth Center nor the Phyllis Wheatley Community Center had space. The choice seemed to boil down to a Pillsbury United Communities facility in north Minneapolis or the downtown offices of Family and Children's Services. The north Minneapolis facility had ample parking, but was cramped inside. The downtown site had more space, but many employees from other agencies were uncomfortable with the downtown location. Specifically, they did not want to pay for parking. Moving the Commonwealth to the site would also require that some long-time Family and Children's Services staff move and they expressed strong opposition. While these opinions were forcefully expressed, the advisory group needed to move implementation along. They decided that cost containment needed to be their highest priority and so, amidst grumblings, they chose the downtown, Family and Children's Services space. March 2006 was established as the date for the move.

The space needed remodeling and, as the work commenced, the reality of the Commonwealth began to become clear to larger number of staff. The complaints increased. Many staff began to worry that the new administrative consolidation would result in layoffs. The CEOs, however, decided early on that they owed their longstanding employees the same consideration as the clients that they served and adopted a "no layoff" policy. Yet, the rumors continued to swirl.

When the physical move occurred in March, the CFOs—who themselves moved to the new location—realized that simply smooshing people would not automatically create a coherent, efficient organization. To aid the transition, they carried it out in various stages. First, the staff continued to carry out their old responsibilities, just in the new, shared space. A consultant was hired to assist in team building and begin to create a shared culture for the Commonwealth, even working with a set of Legos to help staff teams construct an image of the new organization. These efforts paid off, and slowly but surely, people began to feel themselves less employees of their home agencies and more employees of the Commonwealth. Yet, the transition did not work for everyone; one 19-year employee of one the agencies decided to leave. fueled, in part, because of her dissatisfaction with the change.

In the meantime, the advisory board continued to work on identifying a legal structure beyond the joint venture agreement that could both allow for a full collaboration and protect the assets of individual agencies. No such structure existed. The Commonwealth needed to create one and the stakes seemed high. As the CEOs analyzed the problem, they had four options. They could simply retain the joint venture agreement, as skeletal as it was. They could create a new, 501(c)(3) corporation. A new non-profit would mirror the legal structure of their existing agencies. Alternatively, they could create a new, limited liability corporation (LLC) with MACC as the sole member. Finally, they could create a new LLC, whose

members were the current MSO members. All of the options, though, felt scary for the leaders. As Berry remembers, "Each [person] had a moment of 'remind me again of why we are doing this.' They needed each other to remind them and bring them back into the fold."

While all options provided significant differences, some were more significant than others. The advisory board could tolerate a less-favorable tax situation, they reasoned, but the new legal entity had to support the transfer of assets from their home agencies to the Commonwealth. Berry explained:

> "The MACC Board makes its decisions on the general principle of one organization, one vote. But shares in the Commonwealth are based on how much each agency contributes to the whole. Our members, at least our bigger members, had to have some assurance that their assets would be protected: that they would get out of the new organization what they put into it. Without that legal assurance, they would not have joined."

Based on this analysis, the CEOs decided on the fourth option: a new LLC owned by its individual members. When it was constituted in January 2007, the new LLC was formally incorporated in the state of Delaware because Minnesota law did not allow non-profits to have LLCs. Yet, this structure was most appealing. It offered the ability to actually build the values of MACC into the by-laws and, as a result, it would run more like a co-op than a corporation. It also allowed the Commonwealth to do, in Berry's words, "…what we couldn't do as nonprofits."

Yet, in the actual ground floor development of the Commonwealth, Birnbaum understood they were wrestling with maintaining the loyalty of their employees' hearts and minds, and not just with occupying physical spaces or merging corporate cultures. After all, many people work for non-profit agencies —often for less pay than they can get in the business or public sectors – because they are true believers in the agency's mission. As Birnbaum put it, "People just hunger for participating in an organization that has value." The real danger of constituting the Commonwealth as a new LLC--a new *corporation*--was that it asked new employees to affiliate fully with a generic organization whose mission was merely administrative. Birnbaum worried that, unless managed properly, this would kill the passion and larger good that motivated their employees in the first place. "This is high risk," he said. "If we really tamper with what holds them here then we have wrecked the whole thing. What keeps these people in the non-profit sector is their heart. We must keep their hearts engaged with the mission."

In the longer term, financial statements will prove whether the Commonwealth is realizing any financial savings. In the transitional stage, however, how will the leaders know if the Commonwealth is a success? Wagner has a simple answer: "The Commonwealth will be a success if it attracts new members." Molly Greenman agrees that increasing the Commonwealth by approximately two new members each year is critical. If this growth can't occur or if any of the other early adopter leaves the LLC, the viability will be seriously compromised. More members are necessary to realize the longer-term economies of scale.

Recruiting New Members

One agency that seems ready to take that journey is Neighborhood House. Its participation would be a coup for the Commonwealth. For one, it would be the organization's first member in St. Paul—the five early adopting agencies were in Minneapolis—and reaching the other side of the river is important given the dynamics in the Twin Cities. As the Neighborhood House board evaluates its possible participation in the Commonwealth, they are both attracted by its array of administrative services and wary of compromising their own edge in facilities. Even though Neighborhood House is not yet a full participant in the Commonwealth effort of MACC, Hoxworth, the president, is articulate about the meaning of it all. "Look at all the money that the state of Minnesota is throwing into biotechnology," Hoxworth remarks.

> "They recognize the value and potential of that. The social innovation represented by the Commonwealth is just as real as the scientific innovation of biotech. Our funders are always asking us to try new things, to experiment, to collaborate. Well, with the Commonwealth, we did what they asked us to do. It is time for them to recognize the value of what we did and to support it accordingly."

If new organizations join the Commonwealth, new issues will arise. What are the minimal assets new organizations must bring to the table to be viable partners? Will new members have to commit to the same, intensive amount of management time as the early adopters? What other services might be appropriate beyond finance, human resources, and information technology? Would adding new members strain the close relationships among the existing five organizations involved in the Commonwealth? Birnbaum believes the Commonwealth staff will figure out answers to such question. As he reflected, "The most important lesson learned [in this experiment] is how to focus on problems and create solutions." In the environment of charged politics and limited public and private resources, agencies in the MACC collaborative have learned much about this lesson.

However, many other challenges continue that will draw upon all of the resources of the collaboration. The volatile fiscal environment of state and local government that are the funding partners of human service organizations will continue. The lack of political power for poor people and the organizations that serve the will likely persist. Yet, the MACC leadership is hopeful and optimistic about what they have experienced. As Berry says, "This collaborative effort is deep….[P]eople are willing to do it because of a change of mind that has come through the process. It has caused a transformation in how people work and, I've learned, you must build transformation into the process of collaboration. It is transformational because people own that process themselves."