

**Trust as an Asset:
The MACC Alliance for Connected Communities (B)¹**

As the board of the Metropolitan Alliance of Community Centers considered whether or not to pursue the vision of a managed service organization in the tight, fiscal environment facing Minnesota nonprofits, there were many trade-offs to consider. While the managed service organization (MSO) idea had taken up much of their time recently, there were other projects, other means of collaboration, that could yield benefits with less effort. The MSO was *such* a big idea, after all, that most of the 17 MACC agencies paled in front of 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. This program could be brought on line much less expensively than the consolidation of administrative functions; 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, 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; they wanted more diversity to both expand their business and better serve their existing customers. Just as MACC was an alliance of independent agencies who grew stronger when they articulated common goals, Edina was an alliance of independent contractors who 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 more possible for 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 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. But what *kind* of MSO? In a perfect world with unlimited time and money, the steady-state model for implementation had many strengths. It selected just the right system for each task and carefully built consensus among the member agencies around those systems. But funds were not unlimited. In a less-than-perfect world where time was of the essence, the “smooshed” model of implementation was more realistic. To save money, the board decided to select a system for each function—one financial system, for example, and one information technology platform—and to require each agency to adopt it. In January 2005, six agencies—Pillsbury United Communities, Family and Children’s Services,

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Phyllis Wheatley Community Center, Plymouth Christian Youth Center, Tubman Family Alliance, and MACC itself—signed on to the smooshed model of an MSO and 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 logistics 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 in 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 under-estimate the amount of work that needed to be accomplished to realize this vision. The five agency CEOs began to meet every other week to decide on the structural details and puzzle out the legal status of the MSO. CFOs from the agencies divided up other design details: 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, respectively, assumed the leadership of developing the financial system and human resource policies.

While cost-savings was not the initial goal, the leadership wanted to contain costs. The CFO group knew that complexity drove 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 recommended 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. There were also design questions to consider. Some services could be provided on a “flat fee” basis: the MSO would charge its members a percentage of some factor, like their annual budgets, to provide them. Other services could be provided on a “professional” basis, with charges based on planned or actual time spent. The functional 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?

Over the longer term, though, it seemed that costs should decrease. The economies of scale and reductions in complexity that the MSO achieved should allow it to provide member services more efficiently and reduce the price charged to members. Outside vendors (in areas like telecommunications) might be persuaded to charge less for their services. The MSO also might reduce the risk that any one of its member agencies might be defrauded by a service provider.

Yet, for the MACC leadership, the MSO concept was never only about saving money. Fundamentally, the experiment focused upon collaboration and the deeper lessons—about trust,

sharing, and community—that could result. Whatever long-term savings would eventually result, they believed, would probably come from fundamental changes in operations because of the collaboration itself. In spring 2006, more than a full year after the process of consolidation began, the MACC leaders 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.

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?” As a member of the MSO, however, Tony realized that he needed to support the new management and structure, even at the risk of alienating longstanding and loyal employees. As Stan adds, “Probably one of our biggest lessons is that trust and the shared culture that we were creating is a critical, essential resource.”

Throughout the summer and into the fall of 2005, the two upper-management teams—the CEOs and the CFOs—continued to meet, the CEOs weighing the strengths and weaknesses of various legal structures, the CFOs selecting systems and ironing out details of the move. In September 2005, the CEOs created a joint ventures agreement that specified important details. There was, for example, a clause that allowed each participant to leave the partnership until July 1, 2006 without any financial penalty. It also created a formal advisory group with two representatives from each of the founding agency boards of director in addition to the CEO. The group also realized that they needed to better market the creative synergy occurring. 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.

The MACC board, as a whole, also considered the overall cost of the MSO and ongoing operations for the collaboration. They all committed themselves to raising money jointly for both components, relying upon relationships with foundations and other donors that supported their home 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. They 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. It was, as one leader noted, “...a real stretch for them.” This investment encouraged other, more sizable local foundations to contribute to the campaign.

The “Smoosh” Begins

As long as the work remained at the planning stage, it was possible to idealize it. But when the time came, in November 2005, to actually select a physical space for the new organization, it quickly became clear that simply calling it the “Commonwealth” did not mean that the move would be painless. There was no space at either Plymouth Christian Youth Center or Phyllis Wheatley. 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 the other agencies were uncomfortable with the downtown location and did not want to pay for parking. Moving the Commonwealth to the site also would require some long-time Family and Children's Services staff to move and they expressed opposition. To make the final decision, the CEO team chose to consider cost containment as their overriding priority; in the end, they chose the downtown, Family and Children's Services space and established a March 2006 date for the move.

The downtown space needed remodeling and, as the work commenced, the reality of the MSO 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, had 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)—Stan Birnbaum, Mike Johnson, and Dan Ursin—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 so that staff teams could construct an image of what the new organization should be. 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 MSO.

In the meantime, the Advisory Board group 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, to 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 Jan 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. Jan explained:

"Our 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. That new LLC was formally incorporated in the state of Delaware, because Minnesota law did not allow non-profits to be constituted as LLCs, on January 3, 2007.

Throughout the on-the-ground development of the Commonwealth, the leadership understood they were wrestling, not just with occupying physical spaces or merging corporate cultures: they were wrestling with maintaining the loyalty of their employees' hearts and minds. After all, many people work for non-profit agencies—often for less pay than they can get in the private, for-profit or public sectors—because they are true believers in the agency's mission. As Stan 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 in asking new employees to affiliate fully with a generic organization whose mission was merely administrative, the Commonwealth's managers would kill the passion and larger good that motivated their employees, in the first place. "This is high risk," Stan added. "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? Tony Wagner has a simple answer. "The Commonwealth will be a success if it attracts new members." Molly Greenman agrees; growing 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 leave 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. Their 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, Dan 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," Dan 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? Yet, Stan 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.