STRATEGIC RESTRUCTURING

Findings from a Study of Integrations and Alliances Among Nonprofit Social Service and Cultural Organizations in the United States

Amelia Kohm,
David La Piana,
and Heather Gowdy

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Chapin Hall Center for Children

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Summary

The nonprofit landscape is changing. Due to a variety of forces, many nonprofit organizations are looking at new ways to manage and finance their programs, including an approach we call *strategic restructuring*. Strategic restructuring occurs when two or more independent organizations establish an ongoing relationship to increase the administrative efficiency and/or further the programmatic mission of one or more of the participating organizations through shared, transferred, or combined services, resources, or programs. Strategic restructuring ranges from jointly managed programs and consolidated administrative functions to full-scale mergers.

Although there is an emerging literature on nonprofit alliances and partnerships of this type, knowledge of the scope and character of strategic restructuring in the United States remains quite limited. Indeed, a common terminology has not yet emerged, and current experts on the topic have called for further research (McLaughlin 1996; La Piana 1997).

The response to this study's call for respondents may demonstrate increased interest in the area. Although we received 192 responses to the survey, we received many more requests for information on the topic and referrals to organizations that had gone through the strategic restructuring process. Indeed, we became an unofficial clearinghouse of information on the topic.

To learn more about strategic restructuring, Chapin Hall Center for Children, a policy research center at the University of Chicago, and Strategic Solutions, a California-based project of the consulting firm La Piana Associates, Inc., surveyed 192 nonprofit social services and cultural organizations in the United States that had experience with strategic restructuring. Drawing on descriptive data provided by respondents, we devised a typology that includes two primary types:

Alliance. An alliance is a strategic restructuring that includes a commitment to continue for the foreseeable future, shared or transferred decision-making power, and some type of formal agreement. However, it does not involve any change to the corporate structure of the participating organizations. The alliance category includes *administrative consolidation* and *joint programming* partnerships. (See page 11 for definitions of these subcategories.)

Integration. An integration is a strategic restructuring that includes changes to corporate control and/or structure, including the creation and/or dissolution of one or more organizations. The integration category includes *management service organizations* (MSOs), *joint ventures*, *parent-subsidiary structures*, and *mergers*. (See pages 12–13 for definitions of these subcategories.)

Key findings from our analysis of survey responses include the following:

- Organizations involved in integrations were more likely than organizations involved in alliances to be focused on human services, to have large budgets, to have active boards, and to be located in urban communities.
- Organizations involved in alliances were more likely than organizations

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involved in integrations to be focused on arts and culture, to have small budgets, to have fairly inactive boards of directors, and to be located in rural communities.

- Integrations usually involved fewer organizations than alliances did.
- Very young and old organizations were less likely to be involved in any type of strategic restructuring.
- Competition is a key factor in strategic restructuring. It appears that certain industries or service areas are growing crowded with nonprofits and, in some cases, for-profits and governmental organizations. Organizations are attempting to temper competition by cooperating or merging.
- Respondents entered into a strategic restructuring more often to improve the quality or range of what they do and the efficiency with which they do it than because of any immediate threats of closure or pressure from funders. In other words, they appear to be approaching strategic restructuring as a result of forecasting and planning.
- The most common benefits that respondents reported from their restructuring experiences were: increased programmatic collaborations with partner organizations, increased services, increased administrative capacity/quality, and increased market share.
- Respondents generally reported very positive strategic restructuring experiences without significant problems. Most felt that they realized their goals for the partnership. Additionally, in assessing a list of thirteen potential problems, no more than 36 percent of survey respondents identified any individual problem as significant or very significant.[1]
- The most common challenges, according to respondents, were: conflicting organizational cultures, the adjustment of staff to new roles/positions, building trust among organizations, and autonomy concerns. Integrations presented more challenges to respondent organizations than did alliances.
- The most important success factors, according to respondents, were: a staff or board member who championed the partnership, positive past experiences with partnering with other organizations, board support encouragement, and organizational risk taking and/or growth orientation.

Policy shifts, such as managed care policies, and environmental changes, such as the increasing number of nonprofits, are affecting the ways nonprofits compete for resources.

Introduction

The nonprofit landscape is in a period of transformation. Many nonprofit organizations are rethinking how they finance and manage their operations. Nonprofit journal or conference programs are featuring discussions on such topics as nonprofit enterprise and entrepreneurship, social and cause related marketing, public/private and for-profit/nonprofit partnerships, outcomes measurement and accountability, strategic planning, board governance models, and nonprofit management training. Surely, some of this interest grows from pressure to emulate the ways of for-profit companies, prompting much discussion on the similarities and differences between the two sectors and on whether and how tenets of management from one can be fitted to the other. However, there are also policy shifts, such as managed care policies, and environmental changes, such as the increasing number of nonprofits, that are affecting the ways nonprofits compete for resources.

One approach that appears to be growing in popularity is what we call *strategic restructuring*. Strategic restructuring occurs

[1] Because the sample was entirely self-selected, it is likely that it represents more successful strategic restructuring experiences than unsuccessful ones because those who have experienced great difficulties or failures may be less likely to participate in these types of surveys.

when two or more independent organizations establish an ongoing relationship to increase the administrative efficiency and/or further the programmatic mission of one or more of the participating organizations through shared, transferred, or combined services, resources, or programs. Strategic restructuring ranges from jointly managed programs and consolidated administrative functions to full-scale mergers.

This type of restructuring requires the formation of more substantial bonds between organizations than do the collaborative activities in which many nonprofits, often in response to funder priorities, have engaged in the last decade. In such collaborations—which include information sharing, program coordination, and joint planning—organizations do not make an ongoing commitment to the partnership, and decision-making power over key management and program functions remains with the individual organizations.

Strategic restructuring appears to arise from both idealism and pragmatism. When describing the goals of strategic restructuring, those who have engaged in such partnerships often describe ideals of managerial efficiency. They use the vocabulary of "good management," speaking, for example, of eliminating service duplication and of focusing resources on their core competencies. But they also speak of matters that have immediate, often measurable, impact on their operations, such as how, through strategic restructuring, they can increase their buying power, lower costs, and strengthen their competitive edge.

The growth rate and scope of the strategic restructuring trend is not clear. However, there are indications of a recent surge of interest in the area. There is a nascent literature on the topic, and the issue is emerging as a staple at conferences for nonprofit managers. Several funders around the country have also encouraged the consideration and planning of strategic restructuring efforts through special grants programs. Additionally, the response to this study's call for respondents may demonstrate increased interest in the area. Although we received 192 responses to the survey, we received many more requests for information on the topic and referrals to organizations that had gone through the strategic restructuring process. Indeed, we became an unofficial clearinghouse of information on the topic. Those surveyed often told us that they were not aware of partnerships similar to the one they had formed, leaving us with the impression that our sample may represent the vanguard of a new trend.

The growth rate and scope of the strategic restructuring trend is not clear. However, there are indications of a recent surge of interest in the area.

Research Questions

To learn more about strategic restructuring, Chapin Hall Center for Children (a policy research institution at the University of Chicago) and Strategic Solutions (a California-based project promoting greater understanding of strategic restructuring) conducted a study to address the following questions:

- What are the types of strategic restructuring that nonprofit social service and cultural organizations have developed to decrease administrative expenses, to increase management quality, to deliver improved or more integrated services, and/or to better position themselves in the face of increased competition or for other strategic reasons?
- What are the principal categories of such restructurings? Can they be expressed on a continuum or as a matrix?
- Are certain types of restructurings more common among particular types of organizations? Do factors such as budget size; populations, constituencies, or members served; program types; geographic location; community characteristics; or management structure tend to foster particular types of restructurings?

Overview of the Report

The report begins with a review of prior literature related to strategic restructuring. A methodology section is followed by an overview of the types of strategic restructuring identified among the 192 organizations that responded to our 1999 survey. Next is a summary of our findings. The report also includes profiles of partnerships representing each of the six types of strategic restructuring. We conclude with a brief discussion of the process of strategic restructuring and further research questions that we feel warrant examination. (Please contact Chapin Hall for a directory of survey respondents.)

Review of Related Literature

The literature on strategic restructuring is limited and tends to focus on mergers rather than other types of partnership. Books on the subject are primarily how-to manuals written by consultants who have worked with organizations going through strategic restructuring. Below we provide an overview of the research and other literature concerning or related to strategic restructuring.

Several authors have identified strategic restructuring (or whatever term they use for the same activity) as a noticeable trend in the nonprofit sector during the last 10 to 15 years. Most relate the emergence of the strategy to the trend in corporate mergers, noting that the goal of efficiency is the primary force behind the trends in both sectors (Singer and Yankey 1991; Arsenault 1998; McLaughlin 1998; Egan, Cross et al;. Freidenrich 1999). Some surveys of nonprofits appear to support claims about the increase in strategic restructuring activity (McMurtry, Netting et al. 1991; Meyer and DeZutter 1997). For example, the results of two surveys of members of the Maryland Association of Nonprofit Organizations showed that although 27 percent were sharing such resources as facilities and equipment with other agencies in 1995, 58 percent were doing so in 1998/99. Much less common among survey respondents were mergers, although 7 percent indicated in 1998/99 their intention to take this step over the next 2 years (Salamon 1997). Other studies have demonstrated less interest among nonprofits in strategic restructuring. The results from a survey of 191 nonprofits with operating budgets of $5 to $50 million in New York City showed that partnering and alliances had a very low priority in terms of respondents' plans for the future (Abzug and Green 1999). Although such studies provide indications of the prevalence of strategic restructuring in the nonprofit world, our understanding of the scope and character of the trend, both across the sector and within certain categories of nonprofits (such as those with large or small budgets) clearly is quite limited. Indeed, a common terminology has not yet emerged, and current experts on the topic have called for further research (McLaughlin 1996; La Piana 1997).

Several writers describe how nonprofits choose strategic restructuring as an alternative to competition for scarce resources such as grant funds and capable employees

Like those who have studied the broader area of organizational change, researchers of strategic restructuring point to both internal and external forces that may give rise to the strategy, with an emphasis on maximizing resources. Golensky notes that "nonprofit merger seems to be some combination of economic incentives and moral imperative, with perhaps the greater emphasis on the former" (Golensky and DeRuiter 1999). In 1999, Golensky and DeRuiter looked at whether such environmental factors as managed care and its impact on services and managerial decisions were experienced and reacted to in the same way in different organizational settings. They found evidence to support a model that posits that the relationship between decision-making styles of leaders and the internal resources of participating organizations—especially those possessed by a dominant organization—will determine the basic impetus for merging (Golensky and DeRuiter 1999).

The most commonly cited external factor leading to mergers or other types of strategic restructuring is financial necessity, although the imminence of financial problems among those forming partnerships ranges from immediate crises to anticipated future challenges (Singer and Yankey 1991). Specifically, several writers describe how nonprofits choose strategic restructuring as an alternative to competition for scarce resources such as grant funds and capable employees (La Piana 1997; McCambridge and Weis 1997; Bartling 1998; Harris, Harris et al. 1999). Their descriptions reflect some preliminary findings from a study of cooperation and competition between nonprofit organizations that suggest that board interlocking, alliances, and joint ventures occur when organizations depend upon many of the same resources (Galaskiewicz and Bielefeld 1998). This perspective reflects the *exchange theory* in the interorganizational relations literature, which describes coordination as the result of voluntary action to increase the resources of organizations (Alexander 1995).

In addition to similarity of resources, similarity of services among organizations also prompts strategic restructuring, according to some writers. Reduction of duplication of services appears to be a common interest among policymakers and funders (La Piana 1997; Connor and Kadel-Taras 1999; Harris, Harris et al. 1999). For example, due to concerns about an increase in the number of nonprofits involved in similar activities, The Greater Milwaukee Committee, a group of major donors, issued a report in 1990 that suggested some local charities should consider merging to provide more coordinated services and reduce administrative and fundraising costs (Millar 1990). Giving guidelines of funders around the country reflect this concern about duplication.

Interestingly, "efficiency," when applied to nonprofits, often takes on a different meaning than when it is used in a for-profit context. There appears to be a pervasive yearning among many in the nonprofit sector for rationalization. Two or more organizations offering the same services to the same clientele is considered wasteful (Harris, Harris et al. 1999). Within certain sectors of the nonprofit "market," contract failure (i.e., those receiving goods and services are not the same people or institutions paying for them) can lead to problems in the regulation of supply and demand.[2] Many nonprofits' survival is based not on demand among consumers for their services, but instead on the decisions of funders and policy makers based on an inevitably imperfect knowledge of demand and on their own interests and concerns. Depending on the circumstances, these dynamics of the nonprofit market lead, rightly or wrongly, to duplication. And the appearance of duplication can lead, rightly or wrongly, to calls for rationalization of services through mergers and other types of partnerships.

Indeed funders' interests, concerns, and perspectives play an important role in various types of organizational change, including strategic restructuring. DiMaggio and Powell discuss how institutional gatekeepers, such as funders, often regard the use of managerial tactics (e.g., increasing efficiency, devising strategic plans, aggressively marketing services, and strategic restructuring) as indications of organizational accountability, reliability, and trustworthiness (Galaskiewicz and Bielefeld 1998). Similarly, in their study of the causes of organizational change among nonprofits in the Minneapolis-St. Paul metropolitan area, Galaskiewicz and Bielefeld found that from 1980 to 1994 "elites" increasingly enforced the use of managerial tactics at the organizations they supported (Galaskiewicz and Bielefeld 1998). Moreover, according to Powell and Friedkin, "Researchers have suggested that organizational change will be most influenced by external institutional forces when organizational technologies are poorly understood; when organizations are not closely evaluated or when they are located in a field in which market tests of efficiency do not operate strongly; when goals are ambiguous or highly politicized; and when organizations are enmeshed in elaborate relational networks and their environment is highly organized" (Powell 1987). Certainly, several of these criteria fit many nonprofits.

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[2] In her study of the financing of Chicago area nonprofit social service and community development organizations, Kirsten Grønbjerg found that only 5 percent of social service organizations and 13 percent of community development organizations receive half or more of their revenues from fees, sales, or dues. Most are dependent on foundations, government agencies, and individual donors for their revenues (Grønbjerg 1993). Thus the "payer" and the "receiver" of services are different parties.

Reaction to or anticipation of policy shifts that reduce funding or change the way in which organizations receive grants and contracts has also stimulated strategic restructuring according to some writers (Harris, Harris et al. 1999). For example, some states have instituted managed care policies in their funding of mental health and child welfare services. Government contracts are moving away from fee-for-service payments to fixed payments that a provider can spend on a range of services. This new system also uses various types of performance-based contracting, making for a more competitive marketplace. In response, some nonprofits are forming partnerships and networks that allow them to offer a continuum of services in bidding for state contracts (Wulczyn and Orlebeke 1998). Such adaptation to a changing environment reflects interorganizational theory—specifically contingency theory and organizational ecology theory (Alexander 1995).

To help grantees adjust to reductions in public funding, a few grantmakers have established special funding initiatives to encourage nonprofits to consider and plan strategic restructurings (The Greater Kansas City Community Foundation 1999; Meier 1997; Robert Sterling Clark Foundation 1995).

Kushner points to another external circumstance affecting organizational partnerships. He notes that "as capital and data become more mobile, interorganizational relationships which position operations where they can be most efficiently handled and where managers can take advantage of expertise and resources in counterpart organizations, have become more common" (Kushner 1997). McLaughlin emphasizes how administrative service organizations (what we call *management service organizations*) provide services to multiple nonprofits and are often physically separate from the organizations they support (McLaughlin 1999).

Other writers emphasize the fact that increasing overhead expenses—particularly fixed costs like facilities and equipment—combined with dwindling funding sources to cover operating expenses can lead to strategic restructuring. Many nonprofits have relied on their public grants and contracts to cover overhead costs. When these funding streams level off or diminish, organizations can be hard pressed to raise operating dollars because private funders often favor supporting discrete programs over operating costs. Some nonprofits have found that they can reduce overhead significantly by jointly purchasing or leasing equipment and facilities (Kushner 1997).

Factors inside organizations have also been identified as precursors of strategic restructuring. Bartling and others believe that a lack of core competencies, often among the administrative staff of a nonprofit, can inspire organizations to look for partner organizations that possess the needed skills (Bartling 1998). However, the current literature focuses more on external than on internal circumstances that lead to strategic restructuring. Indeed, the organizational change literature emphasizes the role of internal forces in hindering significant change like strategic restructuring. Galaskiewicz and Bielefeld found that due to internal forces, most nonprofits did "more of the same" or reduced operations, even in highly competitive conditions, rather than make major changes (Galaskiewicz and Bielefeld 1998). Additionally, the desire of managers and other stakeholders to maintain positions of power within an organization can delay or prevent change (Powell 1987).

Because strategic restructuring is a nascent area of inquiry, current writers have more to say about motivations than about actual benefits. Moreover, most of the information about benefits is based on anecdotal experience. Some point to the tangible gains derived from economies of scale including improved facilities, more sophisticated technologies, higher-quality management services, more comprehensive benefit plans (Kohm 1998). Egan notes that, in health and human services, analysis and reporting now require significant information and financial systems, and that consolidated systems are typically more able to handle these (Egan, Cross et al. 1999). Writing on the challenges facing arts organizations, Scheff stresses that "producing concerts, marketing, dealing with boards, and raising money are similar challenges for every organization. Consolidating those functions across two or more organizations can lead to better quality as well as lower costs" (Scheff and Kotler 1996). In a rare attempt to quantify the benefits of strategic restructuring, Meier —in his evaluation of the Strategic Alliance Fund (SAF), a collaborative funding initiative managed by the

United Way of New York—reports a net return of $750,000 on SAF's investment of $1 million. Savings, according to Meier, resulted from expense side efficiencies and new income leveraged by thirteen of the grantees (Meier 1997).

Some writers have highlighted more indirect outcomes, such as further collaboration and restructuring with the same or new partners following positive strategic restructuring experiences (Vinokur-Kaplan and McBeath 1999). Kohm describes public relations and fundraising benefits of capitalizing on the reputation and grantmaker connections of partner organizations (Kohm 1998).

A range of real or potential costs and challenges of strategic restructuring also appears in the literature—although, again the sources are more anecdotal than research-based. Cartwright and Cooper, in their book on for-profit mergers, acquisitions and strategic alliances, claim that ". . . research evidence has repeatedly demonstrated that mergers have had an unfavorable impact on profitability. Instead of achieving the projected economies of scale, mergers have become associated with lowered productivity, worse strike records, higher absenteeism, and poorer accident rates rather than greater profitability. . . Similarly, studies of joint venture failure here and in the USA suggest that, despite the adequacy of the financial backing they receive, they are highly unstable, with ventures involving research and new product development, or partnerships between organizations significantly different in size, being particularly at risk" (Cartwright and Cooper 1992).

While it remains unclear whether merged nonprofits are experiencing negative outcomes similar to those Cartwright and Cooper describe, Egan maintains that mergers can reduce the variety of organizations from which clientele can chose (Egan, Cross et al. 1999). Miller adds that large nonprofit organizations or partnerships that result from strategic restructuring can lead to the growth of bureaucracy and an attending decline in community orientation and responsiveness (Sterne 1989; Millar 1990). Moreover, size, according to Meier, does not always lead to efficiency. He notes that " despite increasing budgets, most of these (large) agencies have virtually no fiscal reserves, are over dependent on government funding, and are experiencing considerable volatility in the programs and services they offer" (Meier 1997).

Kushner warns that partnerships "make an organization's boundaries more permeable, potentially threatening its ownership and control. By directing attention outward, they can contribute to diminished organizational focus. A wider scope of management responsibility can reverse efficiency benefits which may have been gained" (Kushner 1997). La Piana and Heath add that partnerships can threaten a sense of identity among participating organizations and the individuals associated with them. Such a threat, in turn, can raise defenses against adaptation to changing environments and weaken a strategic restructuring (Heath and McLaughlin 1993; La Piana 1997). Moreover, memories of failed partnerships may impede consideration and formation of new ones (Heath and McLaughlin 1993).

Lack of information on partnership options can also undermine the strategic restructuring process. High profile corporate mergers that involved large staff layoffs often color organizational leaders' visions of strategic restructuring. Managers frequently lack knowledge of strategic restructuring in the nonprofit world, particularly non-merger type partnerships (La Piana 1997; McCambridge and Weis 1997; McLaughlin 1998).

Those who have written about apparently successful strategic restructuring suggest a number of factors as critical to beneficial partnerships. Some feel that nonprofit mergers succeed when they are not forced by such outside players as funders (Cowin and Moore 1996; Golensky and DeRuiter 1999). Others claim that partners are most likely to work well together when they share a vision of what they want to accomplish and recognize and value the different capacities each organization brings to the partnership (Merchant 1989; Sterne 1989; Cowin and Moore 1996; Harris, Harris et al. 1999). Successful partnerships, according to some writers, arise from established, trusting relationships among organizations built through such preexisting networks as advocacy coalitions, membership organizations, or shared board members (Hammack and Young 1993; Kanter 1994; Gulati and Gargiulo 1997).

Success also rides heavily on individuals who choose to champion the partnership.

Singer and Yankey, among others, emphasize the impact of individual personalities on strategic restructuring (Singer and Yankey 1991; Heath and McLaughlin 1993; Kushner 1997). A leader's ability to model support of the partnership and communicate the scope, process, and implications of restructuring to their staff can make the experience more successful. La Piana and Singer and Yankey stress the importance of dealing with problems immediately in an open manner to allay inevitable concerns of staff members during and after the implementation of the new structure (Singer and Yankey 1991; La Piana 2000).

With the findings, anecdotes, and predictions of the current literature in mind, we set out to collect information from organizations around the country involved in strategic restructuring.

Methodology

The research team administered a structured survey by telephone or through an online survey instrument to a convenience sample of respondents whose organizations had experience with strategic restructuring. Organizations were limited to social services and cultural organizations in the nonprofit sector in the United States that had been, were currently, or planned to be involved in the sharing or merging of boards, space, equipment, facilities, personnel, risk, and/or administrative systems with other organizations.[3] Respondents were recruited in a number of ways. The research team publicized the survey through announcements in various publications, newsletters, websites, and listserves focused on nonprofit issues, and requested referrals from organizations that consult with, fund, and manage associations of nonprofits. We also asked for referrals from respondents to the survey. Respondents (N=192) were individuals—primarily directors—who represented one of the organizations involved in a strategic restructuring. Each completed a brief questionnaire.

The research team reviewed respondents' descriptions of their partnerships and identified two primary factors that distinguished strategic restructurings: level of integration and area of integration (programmatic, administrative, or both). We devised a typology that includes two primary types and six subtypes of restructuring. (See Partnership Matrix, page 10.) Several other researchers reviewed the categories and the definitions of each. We then assigned strategic restructurings from the sample to the categories. We tested the taxonomy by having a researcher who was not involved in the project assign a subsample of partnerships to categories and compared her assignments to that of the research team.

We then analyzed the two primary restructuring types with respect to organizational characteristics, restructuring characteristics, and restructuring experiences. Unfortunately the sample sizes for subtypes did not allow analysis on this level. We also visited partnerships representative of each of the subtypes. Based on interviews with staff, board members, funders, and others stakeholders involved in these partnerships, we developed profiles of the partnerships, each of which is a snapshot of a strategic restructuring at the time of the interviews. (see pages 24–52.)

Findings

Profile of Survey Respondents

Respondents (N=192). were asked to provide information on location, organization type, age of organization, budget size, age of primary constituency, and racial/ethnic focus for their own organization *and* for their partner organizations. Percentages reported below are based on the information respondents provided about their own organiza-

[3] For the purposes of the study, we defined *social service* and *cultural organizations* as organizations providing direct service, advocacy, or volunteer support on one or more of the following issues/concerns, or as membership organizations for other organizations providing such services, advocacy or volunteer support: Public Protection; Employment/Jobs; Food, Nutrition, Agriculture; Housing/Shelter; Public Safety; Disaster Preparedness & Relief, Recreation, Leisure, Sports, Athletics; Youth Development; Human Services; Multipurpose & Other; Arts, Culture, and Humanities; Mental Health, Crisis Intervention; Religion Related/Spiritual Development. To be an eligible respondent, an organization had to fit this definition, but their partner organization(s) could fall outside of this definition.

tions. The 555 partner organizations had similar characteristics to those of respondent organizations. (Please contact Chapin Hall for a directory of survey respondents.)

Location (N=192). Respondent organizations and their partners were across the U.S., including 34 percent in the northeast, 11 percent in the south, 34 percent in the Midwest, and 21 percent in the west.[5]

Organization type (N=190). The majority of respondents defined as human services (73 percent), 18 percent defined themselves as arts and culture organizations, and 9 percent defined themselves as "other."[6]

Age of organization (N=188). Almost half of the organizations (46 percent) were in the age range of 11 to 60 years. Twenty-one percent were very young organizations, 10 years or less. Thirty-three percent had been in existence for over 60 years.

Budget size (N=190).

Less than $100,000	3 percent
$100,000 to $500,000	17 percent
$500,00 to $1 million	10 percent
$1 million to $5 million	36 percent
$5 million to $10 million	18 percent
More than $10 million	16 percent

Age of constituency (N=189). More than half of respondents (58 percent) reported that they served clients, audiences, or members of all ages. Twenty-four percent primarily served 0-18 year olds, 14 percent primarily served 19-64 year olds, and 3 percent served those aged 65 years or more.

Racial/ethnic focus (N=189). The vast majority of respondents (94 percent) reported that their organization did not have an organization-wide racial or ethnic focus.

Type of community (N=184). Fifty percent of respondents reported that their organization was located in an urban community, 23 percent in a suburban community, 9 percent in a rural community, and 19 percent were located in more than one type of community.

Board involvement (N=186). When asked to rate their board compared to others with which they were familiar, respondents generally described their boards of directors as very active and involved.

1 (least active and involved)	8 percent
2	6 percent
3	27 percent
4	36 percent
5 (most active and involved)	23 percent

Restructuring type (N=192). The sample was fairly evenly divided among organizations involved in alliances and integrations. Administrative consolidations and mergers were the most prevalent subtypes.

Alliances	45 percent
• Administrative Consolidation	(35 percent)
• Joint programming	(10 percent)
Integrations	55 percent
• MSO	(18 percent)
• Joint Venture	(2 percent)
• Parent/Sub	(3 percent)
• Merger	(32 percent)

Stage of development (N=190). Seventeen percent of survey respondents reported that the restructurings in which their organizations were involved were being developed or negotiated at the time of the survey. Fifteen percent were implemented less than a year prior to the survey. Fifty-nine percent had been functioning for at least a year, and 8 percent had been completed or terminated. Of those that were recently developed or currently functioning, 81 percent had been formed in the prior 5 years.

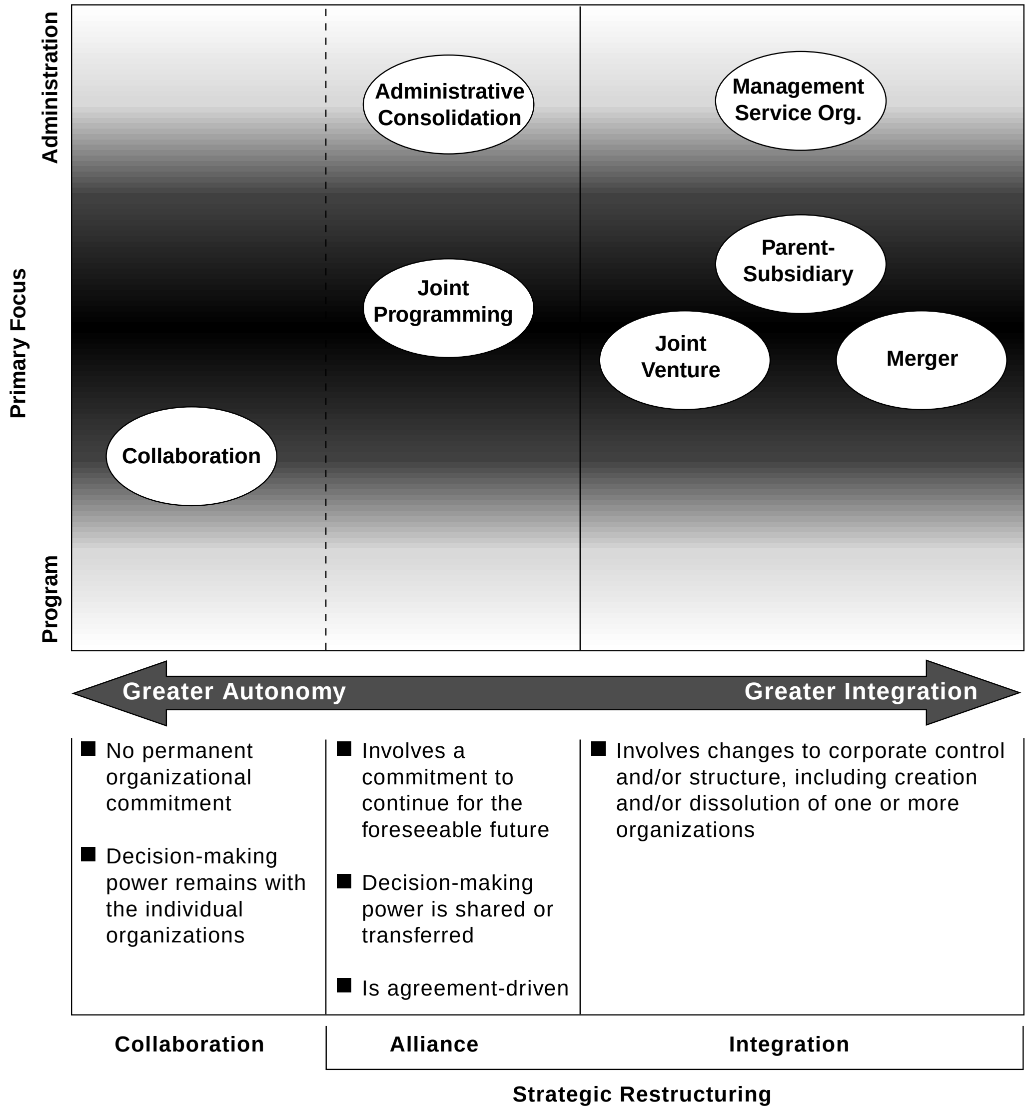
Typology of Strategic Restructuring

By reviewing respondents' descriptions of the strategic restructurings in which their organizations were involved, we identified two primary types of strategic restructuring and six subtypes. The Partnership Matrix on page 10 provides a visual representation of these types, illustrating that the primary distinguishing features among the different types are: degree of integration (the X axis) and the primary focus of consolidation:

[5] Northeast: ME, VY, NH, MA, RI, CT, NY, NJ, PA, WV, VA, MD, DE, DC
South: KY, TN, NC, SC, GA, AL, MS, FL, NM, TX, OK, AR, LA
Midwest: MN, WI, IL, MI, IN, OH, NE, KS, IA, MO
West: MT, WY, UT, CO, SD, ND, AK, WA, OR, ID, HI, CA, NV, AZ

[6] The organizations that defined themselves as "other" all appear to be human service organizations (given the names of the organizations) that fell outside of the categories of human services that we presented in the survey.

The Partnership Matrix



administrative, programmatic, or some combination of the two (the Y axis).[7]

Before presenting the definitions of the types and subtypes, it might be helpful to reiterate our definition of strategic restructuring. Strategic restructuring occurs when two or more independent organizations establish an ongoing relationship to increase the administrative efficiency and/or further the programmatic mission of one or more of the participating organizations through shared, transferred, or combined services, resources, or programs.

Alliance

An alliance is a strategic restructuring that includes a commitment to continue for the foreseeable future, shared or transferred

[7] For the purposes of the study, we used the following definitions:

Programmatic pertains to the direct services that an organization provides to further its mission (examples: job training, housing, recreation, counseling, legal support).

Administrative pertains to the back-office and management functions that support the operation of the institution and its direct services (examples: insurance, training, facilities, equipment, staff/consultants, and fundraising/marketing).

decision-making power, and some type of formal agreement. However, it does not involve any change to the corporate structure of the participating organizations. There are two types of alliances: administrative consolidations and joint programming.

Administrative consolidation. An administrative consolidation is an alliance that includes the sharing, exchanging, or contracting of administrative functions to increase administrative efficiency of one or more of the organizations. A profile of an administrative consolidation appears on page 24.

The most common administrative consolidations in our sample are ones in which two or more organizations share resources or services. Examples include:

- Thirty-two human service agencies in and around Buffalo, New York formed a nonprofit worker's self-insurance trust.
- Wayne County Alcoholism Services, a substance abuse prevention and treatment agency, and Every Woman's House, a domestic violence program, both in Wooster, Ohio, shared a capital campaign, and the organizations now co-own a facility with shared administrative staff.
- Three family service agencies in San Mateo County, California, partnered to develop customized software systems. They also collaborate on information technology training.

Less common in our sample are administrative consolidations that involve the contracting or exchange of services or resources. Examples include:

- Eisenhower Dance Ensemble, a small arts group in Detroit, Michigan, contracts with Detroit Chamber Winds and Strings for administrative services, which includes their executive director.
- South Alameda County Domestic Violence Law Project, a small legal services organization contracts with two domestic violence agencies in the San Francisco, California area, Shelter Against Violent Environments and Tri-Valley Haven, for assistance with personnel, fundraising, and financial management.
- Raymond Wolfe Center, small nonprofit in West Virginia, provides free office space to another small organization, the Family Resources Network, in exchange for use of their office equipment including a copier and computers.
- Junior Achievement of the Ohio Valley, Inc. provides public relations and fundraising services to The Ashland Area Art Gallery in exchange for office space on the gallery's vacant second floor.

Joint programming. Joint programming is a restructuring that includes the joint launching and managing of one or more programs to further the programmatic mission of the participating organizations. Profiles of joint programmings appear on pages 26 and 29. Examples of joint programming include:

- The Victoria Theatre Association, a presenting arts center in Dayton, Ohio, partnered with The Human Race Theatre Company to create a new series of productions.
- Lawrence Partnership for Children and Youth, Inc., Big Brothers/Big Sisters of Douglas County, and the Lawrence public schools, all in Lawrence, Kansas, each appointed one of their staff members to the YouthFriends volunteer program. The staff share an office, and all three agencies jointly make administrative decisions.
- Fifteen cultural organizations receive grants from dedicated tax revenues from a six-county district in the Denver, Colorado, metropolitan area. The organizations decided that rather than each taking the full grant amount assigned to them, they would reserve 5 percent of all grant funds (or about $500,000) for joint projects.

Integration

An integration is a strategic restructuring that includes changes to corporate control and/or structure, including the creation and/or dissolution of one or more organizations. There are four types of integrations: management service organizations, joint ventures, parent-subsidiary structures, and mergers.

Management service organization (MSO). An MSO is an integration that includes the creation of a new organization in order to integrate administrative functions and thus increase the administrative efficiency of participating organizations through the creation of a new organization. Profiles of MSOs appear on pages 31 and 34. Examples of MSOs include:

- Four theatres in Charlotte, North Carolina, all residents of the same performing arts center, established a nonprofit advertising agency to serve their organizations. Through the MSO, they share marketing staff, a box office, and marketing initiatives. Recently the MSO has taken on some other clients to increase income but the four founding organizations remain the primary partners.
- Colorado Care Management (CCM) is a partnership of five Colorado human service agencies designed to respond to a new state funding system based on managed care policies. Through the MSO, the separate organizations offer a continuum of treatment services for children and families and joint marketing to public agencies for managed care contracts. The MSO also allows them to centralize certain administrative functions to gain economies of scale.

Joint venture. A joint venture is an integration that includes the creation of a new organization to further a distinct administrative or programmatic end of two or more organizations. Partner organizations share governance of the new organization. A profile of a joint venture appears on page 43. Examples of joint ventures include:

- Catholic Charities Housing formed a joint venture corporation with Humility of Mary Housing called Caritas Communities. Both organizations are Catholic sponsored housing corporations in Youngstown, Ohio. Through Caritas Communities, the organizations took over a distressed low-income housing property, acquired a $5 million low-income tax credit, and jointly manage the property for low-income families.
- Louisville Visual Art Association, The Speed Art Museum, and Kentucky Art & Craft Foundation, all located in Louisville, Kentucky, formed a limited liability partnership to operate a gift shop and gallery, the income from which supports all three partners.

Parent-subsidiary. A parent-subsidiary structure is an integration that includes the integration of some administrative functions and programmatic services. The goal is to increase the administrative efficiency and program quality of one or more organizations through the creation of a new or the designation of an existing organization(s) to oversee the administrative functions and programmatic services of other organization(s). Although the visibility and identity of the original organizations often remain intact in a parent-subsidiary relationship, some organizations involved in such restructurings consolidate to the point where they look and function much like a merged organization. Profiles of parent-subsidiaries appear on pages 37 and 40. Examples of parent-subsidiaries include:

- Metro Area Congregations (MAC) was established by five religious associations in Chicago, Illinois, as a way in which these community-based organizations could work together on metropolitan issues. MAC is an umbrella organization and each of its five member groups is separately incorporated. However, all member groups' staff work for and are trained and supervised by MAC.
- United Health Services (UHS) has six member organizations, each of which is a small 501(c)(3) organization providing advocacy and training on disability issues. Through UHS, these organizations share an executive director. The parent agency oversees their work, providing program evaluation and management of grants and contracts with funders.

Merger. A merger is an integration that includes the integration of all programmatic and administrative functions to increase administrative efficiency and program quality of one or more organizations. Mergers occur when one or more organizations dissolve and become part of another organization's structure. The surviving organization may keep or change its name. A merger also occurs when two or more organizations dissolve and establish a new structure that includes some or all of the resources and programs of the original organizations. Profiles of mergers appear on pages 46 and 48. Examples of mergers include:

- The Community Resource Information Service/Helpline, an organization in Santa Barbara, dissolved and merged into Family Service Agency of Santa Barbara.
- Two small human service organizations in St. Paul, Minnesota, Capitol Community Services and Good Neighbor Services Foundation merged when the corporate structure of one of the organizations was dissolved, and the surviving organization changed its name to Neighbor to Neighbor.
- Two well-established human service agencies in Taunton, MA, VersaCare and ComCare, came together to form a new entity, Community Care Services, Inc.

In our analysis of the survey data, we focused on the relationship between the primary strategic restructuring types—alliances and integrations—and three categories of variables: organizational characteristics, restructuring characteristics, and restructuring experiences. Below we review key findings in these three areas.[8]

Organizational Characteristics[9]

Among survey respondents, those providing human services tended to gravitate toward corporate integrations, whereas arts and culture organizations were more often involved in strategic alliances. Of the respondents who defined their organizations as human service agencies, 42 percent were involved in alliances, whereas 71 percent of the organizations that defined themselves as primarily focused on arts and culture were involved in alliances. [10]

As reported above, very young and old organizations were less likely to be in any type of strategic restructuring. Involvement in restructuring partnerships was over 50 percent higher in organizations aged 11 to 26 years than those aged 0 to 10 years. Similarly, organizations with very large (over $10 million) or small annual budgets (less than $500,000) were less likely to be involved in strategic restructuring than those with mid-range budgets. If the sample reflects the entire population of nonprofits involved in strategic restructuring, then the distribution of organization ages and budget sizes may suggest that smaller and/or younger organizations often do not have the capacity (money, time, leadership, etc.) to engage in strategic restructuring. The distribution may also suggest that larger and/or older nonprofits may be strong enough (in terms of funding base, leadership skills, program range, etc.) and therefore have less motivation to engage in strategic restructuring. We hope to test this hypothesis is Phase II of this study. (See page 22 for more on Phase II.)

When the larger organizations in the sample did engage in strategic restructuring, they were more likely to be involved in inte-

. . . the distribution of organization ages and budget sizes may suggest that smaller and/or younger organizations often do not have the capacity (money, time, leadership, etc.) to engage in strategic restructuring.

[8] Because the sample is not randomly selected, we did not use statistical significance as a guideline for generalizing beyond the sample. Because respondents selected themselves for participation in the study, their choice to participate might have a meaningful relationship to the answers they provided, and thus they may not represent the larger population of nonprofit social service and cultural organizations.

[9] Findings in this section are based on information provided by respondents on their own organizations. It does not include findings based on information provided on their partner organizations. However, there were similar patterns in the data about partner organizations.

[10] We use the past tense because most respondents had already implemented some type of restructuring at the time of the survey. However, some respondents were still in the planning phases when they responded to the survey.

grations than in alliances. Organizations in integrations were twice as likely to be in higher budget categories than organizations involved in alliances. Only 26 percent of the largest organizations (with budgets of $5 million or more) were involved in alliances, whereas 65 percent of the smallest organizations, with budgets of $1 million or less, engaged in alliances. This finding may suggest that integrations require a degree of organizational capacity that smaller nonprofits lack. It may also suggest that small organizations engage more often in alliances to gain benefits of sharing resources while maintaining their specific focus on a community and/or type of program. Conversely, because large organizations often have a wide range of services and clientele to begin with, integrations may be less likely to jeopardize their mission.

Although most respondents felt that their boards were quite active, a greater percentage (74 percent) of those organizations that reported the least active boards were involved in alliances than in corporate restructuring. Again, this finding may reflect that alliances require less organizational capacity—such as strong governance—than do integrations.

Organizations in urban communities were more often involved in integrations (61 percent vs. 54 percent overall) and those in rural communities were more often involved in alliances (68 percent vs. 46 percent overall). The distribution of strategic restructurings in suburban communities reflected the overall sample. If rural communities tend to have fewer and more geographically disperse nonprofits and if those organizations tend to have fewer resources than urban ones, this finding may suggest that alliances are a more feasible option under such conditions, and that proximity and resources may facilitate integration in urban environments.

. . . it seems that respondents are more often entering into strategic restructuring to improve the quality or range of what they do and the efficiency with which they do it than because of any immediate threats of closure or pressure from funders.

Patterns of Strategic Restructuring

Among survey respondents, integrations usually involved fewer organizations than did alliances. Organizations involved in integrations were half as likely to be in restructurings with two or more other organizations than organizations involved in alliances.[11]

Restructuring most often involved all organizations of one type (human service, arts and culture, or other). Only 26 percent involved organizations of more than one type. However, budget sizes and organizational ages within partnerships often varied. Only 17 percent of partnerships involved organizations of the same age category and only 14 percent involved organizations of the same budget category. (See category designations, page 13.)

Organizations involved in integrations were more likely to draw on various types of resources in planning their restructuring than organizations involved in alliances. For example, organizations in integrations were three times more likely to have used outside consultants than organizations in alliances, and twice as likely to have read articles, reports, books, websites, or attended seminars on the topic than organizations involved in alliances. Certainly, integrations are more complex and risky ventures and thus may inspire more research and planning. Additionally, those contemplating merger, the most common integration type in the sample, may find more helpful resources than those forming other types of partnerships. Many respondents involved in alliances felt that they were trail blazing and did not know of any model to emulate or resources to inform their plans. Indeed, in our literature review we found many more articles and publications on mergers than on any other type of restructuring.

[11] We also looked to see if there was a relationship between the number of organizations involved in a restructuring and the benefit and problem levels reported by respondents (derived by finding each respondent's average score for all benefits or problems). We did not find a direct or inverse relationship. We did the same analyses using the variables of restructuring age and resources used in planning and also did not find any type of relationship with problems or benefits.

Restructuring Experiences

Motivations

When asked to rank various possible reasons for restructuring, respondents most often cited internal decisions to increase efficiency/efficacy of their organization (83 percent) and increased competition for funding (60 percent) as the most important motivations.[12] The least important motivations for restructuring were: pressure from funders (30 percent) and reduction in private funding (32 percent). (See Table 1.) Organizations involved in integrations were twice as likely to be motivated by reduction in public funding, reduction in private funding, or increased competition for clients/audiences/ members than those involved in alliances. And they were three times more likely to be motivated by competition for funding than those involved in alliances.

Respondents were given the opportunity to list other motivations, not included in the survey list. Many pointed to a leadership vacuum—usually the retirement or resignation of an executive director—as an impetus for their considering strategic restructuring. In a competitive market for high-quality managers, an administrative consolidation, MSO, parent-subsidiary structure, or merger provides ways to profit from leadership at other organizations. Respondents also mentioned that state funding agencies' deliberation and, in some cases, implementation of managed care policies has spurred consideration of strategic restructuring among mental health and child welfare providers. By forming administrative consolidations, MSOs, and parent-subsidiary relationships, organizations gain a competitive advantage in bidding for public contracts because they can offer a continuum of services, sophisticated tracking systems for reporting on client outcomes (acquired through joint purchasing or created together), and/or low overhead gained through economies of scale.

Goals and Benefits

The most important goals for restructuring, according to respondents, were: to increase services (81 percent), to increase programmatic collaborations with partner organizations (79 percent), to increase market share/ competitiveness (69 percent), to increase funding (65 percent), and to increase administrative capacity/quality (65 percent). The least important goals for restructuring were: to prevent their organization from closing (18 percent), to prevent reduction of size or scope of their organization (22 percent), and to appease funders (25 percent).

It appears that certain industries or service areas are growing crowded with nonprofits and, in some cases, for-profits, and governmental organizations, leading organizations to temper competition by cooperating or merging.

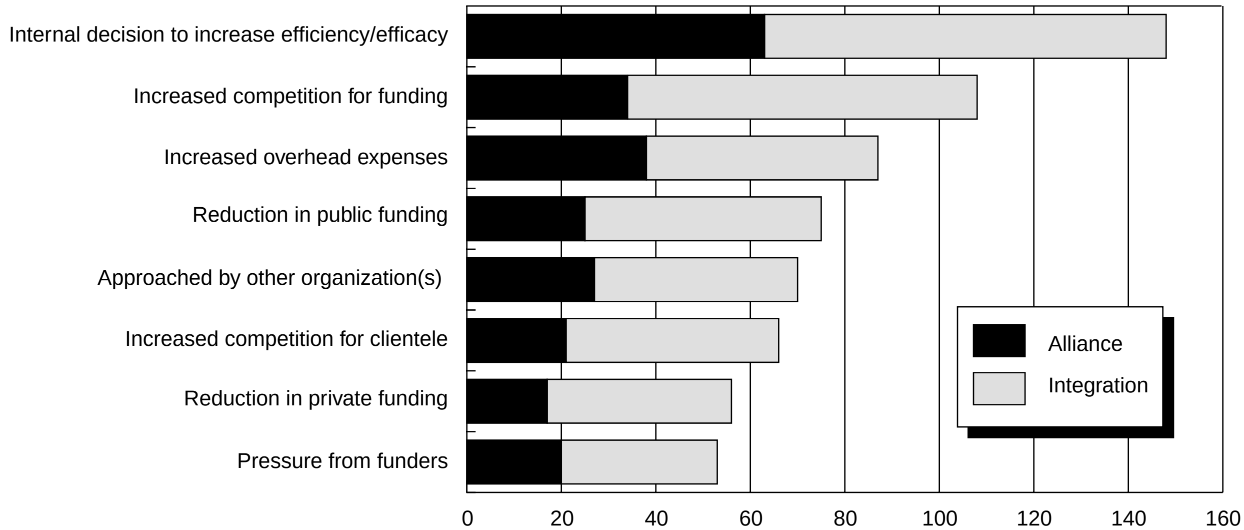
Looking at these findings, along with those concerning motivations, it seems that respondents are more often entering into strategic restructuring to improve the quality or range of what they do and the efficiency with which they do it than because of any immediate threats of closure or pressure from funders. In other words, they appear to be approaching strategic restructuring as a result of forecasting and planning.

Competition also emerges as a key factor in strategic restructuring. It appears that certain industries or service areas are growing crowded with nonprofits and, in some cases, for-profits, and governmental organizations, leading organizations to temper competition by cooperating or merging. Interestingly, the issue of competition appears to be a stronger motivator than reduction in public or private funding, possibly suggesting an increase in demand for resources rather than a decrease in supply. Jay C. Bloom, president and CEO of Morrison Center Child and Family Services in Portland, Oregon, reflected the comments of other respondents when he told us, "One of the most important challenges for any CEO today is to sort out competitive from collaborative relationships. This is based on two assumptions. The first assumption is that no

[12] Percentages based on number of respondents who indicated that a certain motivator, goal, benefit, problem, or success factor was "important" or "very important."

Table 1

Number of Respondents Who Listed Motivation as "Important" or "Very Important"



organization today can go it alone. The second assumption is that you can't compete or collaborate with everybody. So you have to sort out whom you collaborate with and at what level and whom you compete against at what level. This is a major challenge." Organizations involved in integrations were five times more likely to set a goal of increasing their competitiveness than organizations involved in alliances.

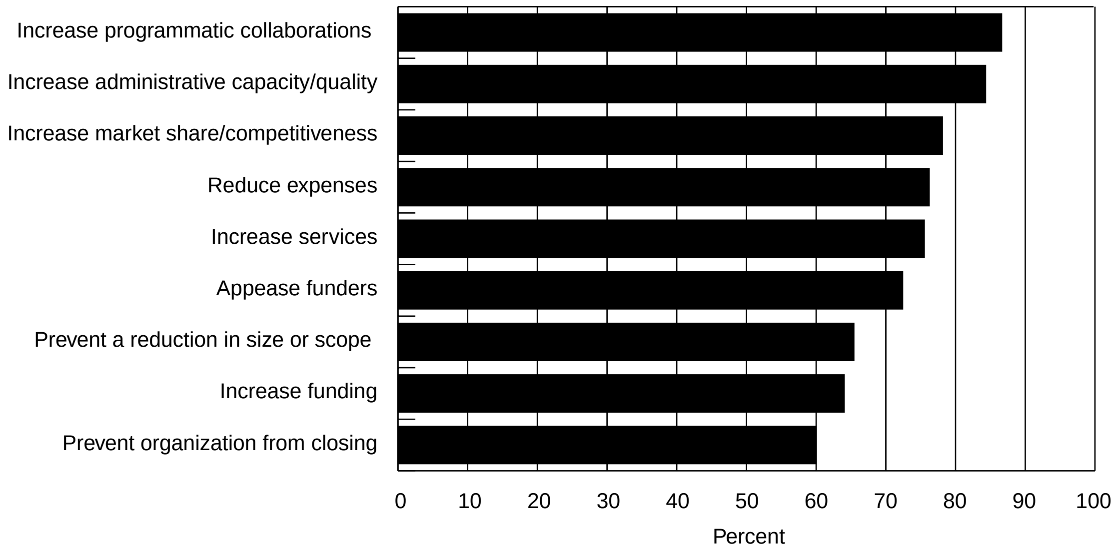
The most important benefits that respondents reported from their restructuring experiences were: increased programmatic collaborations with partner organizations (74 percent), increased services (67 percent), increased administrative capacity/quality (63 percent), and increased market share/competitiveness (60 percent). The least important benefits from restructuring were: prevented organization from closing (14 percent), prevented reduction of size or scope of organization (17 percent), and appeased funders (27 percent). Organizations involved in integrations were three times more likely to have reported increases in their competitiveness and twice as likely to have reported increases in administrative capacity than organizations involved in alliances.

Respondents generally reported that they derived important or very important benefits in the areas where they set their most important goals. As Table 2 demonstrates, over 80 percent of respondents who indicated that increasing programmatic collaborations and administrative capacity/quality were important goals felt that these were important benefits of their restructuring experience. Fewer of those who reported that preventing a reduction in size or scope of the organization, increasing funding, and preventing the organization from closing were important or very important goals felt they received important benefits in these areas.

When given the opportunity to indicate other benefits not included in the survey list, respondents mentioned two more often than others. Among those involved in strategic restructurings that were not full-scale mergers, many pointed to preservation of autonomy as an important benefit. A typical comment came from G. Lynn Brown, President and CEO of Planned Parenthood of Southern New Jersey. Speaking of their administrative consolidation with six other Planned Parenthood organizations, she told us: "It is a very effective way to do work. What makes it work so well is that we are all autonomous. None of us are worried about merging. We do things jointly that do not affect our autonomy. That's why it has worked so well." Another benefit mentioned was that various types of strategic restructuring allowed organizations to coordinate services with other organizations. Organizations altered location, schedules, and other aspects of programs to increase access for clientele involved in part-

Table 2

Percent of Respondents Who Reported an Important or Very Important Benefit Based on Number Who Reported the Same Issue as an Important or Very Important Goal



ner organizations. In addition, strategic restructuring allowed organizations to focus on their core competencies and relinquish service areas where partners were stronger.

Problems

Among a list of thirteen potential problems, no individual problem was considered significant or very significant by more than 36 percent of respondents. The least significant problems were: staff layoffs (10 percent), dealing with constituencies (10 percent), dealing with funders (12 percent), working out legal agreements (12 percent), and competing goals of partner organization(s) (14 percent).

Not surprisingly, integrations presented more challenges to respondent organizations than did alliances. Organizations involved in integrations were more likely to indicate that the following were significant or very significant problems than organizations involved in alliances:

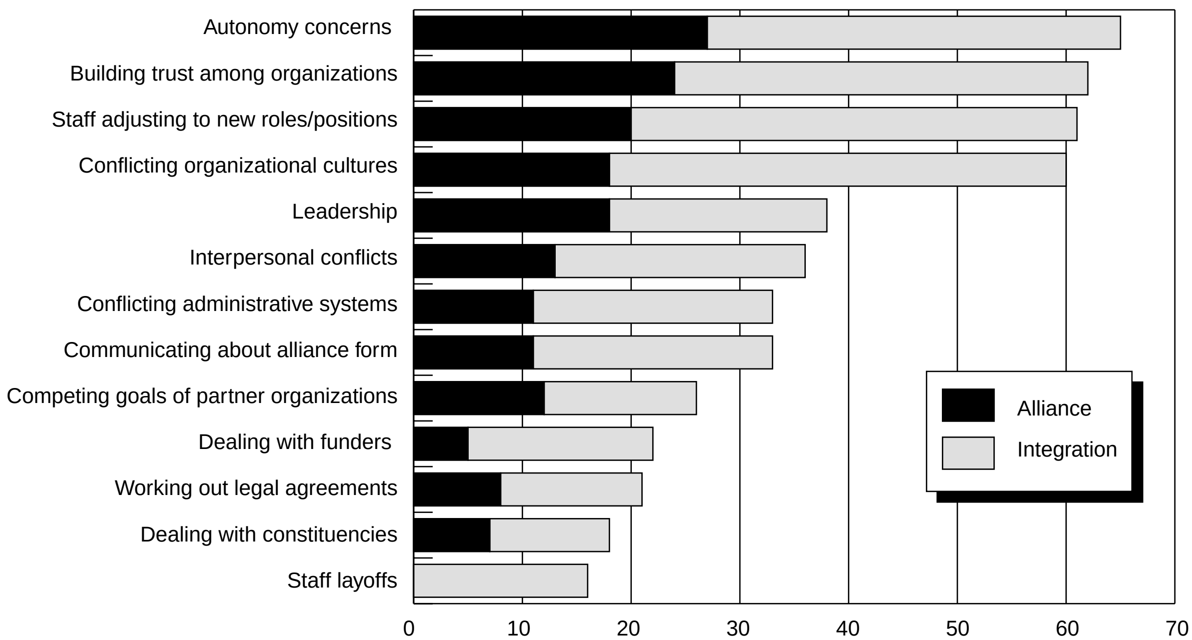
- Staff layoffs, 11 times more likely
- Dealing with funders, 3 times more likely
- Conflicting organizational cultures, 3 times more likely
- Staff adjusting to new roles/positions, 3 times more likely
- Conflicting administrative systems, 2 times more likely
- Building trust among organizations, 2 times more likely
- Interpersonal conflicts, 2 times more likely
- Communicating with various audiences about new restructuring form, 2 times more likely

We asked respondents to specify the types of problems they have encountered with regard to leadership, funders, and clientele. We review the most commons responses below.

Leadership problems. Leaders' difficulty sharing control and/or making decisions based on personal ego issues arose as a central leadership problem. In non-merger restructurings, respondents spoke about the difficulty of leading a partnership with other directors who are accustomed to being in control. Others spoke of the challenge of thinking not just of one's own agency, but of the common good of all partners and of dealing with different leadership styles. Anthony Wagner, president of Pillsbury Neighbor-

Table 3

Number of Respondents Who Listed Problem as "Significant" or "Very Significant"



hood Services in Minneapolis noted, "It is difficult to lead a group of colleagues. You have to lead while appearing to follow, and leading without authority is difficult." Tom Vanden Berk, president and executive director of Uhlich Children's Home in Chicago, explained, "You can clearly identify a mission, that's not a problem. It's all about ego and control. If we weren't willing to give up control, none of this would happen." (For more on this strategic restructuring, see profile page 43.)

Changes in leadership in the midst of planning or implementing a strategic restructuring also presented challenges to a number of respondents. Although turnover is a general problem across many nonprofits, it can be particularly challenging when an organization is forming a partnership. "We had one of the executive directors who would have transitioned into the new organization leave a week before the merger," said Gerald DeRuiter, president of Arbor Circle in Grand Rapids, Michigan. "He was supposed to be the clinical director. It not only created a hole to fill, it left the organization he represented wondering if they had done the right thing."

Funder problems. Although very few respondents indicated that funder issues were significant problems, several respondents told us that funders did not appear to understand the structure or value of non-merger types of partnerships. Such respondents felt that misperceptions about the strategic restructuring in which they were involved made it difficult for them to secure funding. Moreover, some said that they faced difficulties convincing their current supporters to maintain their funding in light of their strategic restructuring. For example, William Krause, executive director of Opera Roanoke in Roanoke, Virginia stressed, "We always have to be sure that (funders) understand what we get from Center in the Square (an MSO), and they may think we are getting more than we are. And sometimes they feel they can just give to Center in the Square and not to individual organizations." Similarly, Stuart Ferst, president of the Anixter Center in Chicago, an organization that merged with a smaller agency, told us, "Some funders of the smaller organization felt it was merging with a large one with deep pockets, and thus they did not need to support it any longer."

A few problems concerning funders were specific to mergers. For example, a number of respondents felt that their merger sparked or exacerbated local funder concerns about nonprofits gaining too much power and/or limiting client choice. "We had a very good response by all but one of our funders, our largest funder," recalls Gerald DeRuiter, president of Arbor Circle in Grand Rapids, Michigan, "We were the first nonprofit merger in the area, and they didn't know how to react to it. They said that they were afraid that the merger would limit client choice. But they were really concerned about limiting their choice of which they choose to fund. Three years later, after some other mergers, they haven't reacted as strongly to them. We were just the one breaking the wave." Some respondents who had gone through mergers described the challenges of overcoming the negative reputation among funders of one of the original organizations.

Client problems. Client problems were even less prevalent than funder problems among respondents. In many of the strategic restructurings, particularly those that only involved consolidation of administrative functions, the partnership was invisible to clients, members, or audiences. However, a few problems emerged several times in the survey responses. Some respondents reported that a non-merger restructuring was confusing to their clientele. For example, Moses Goldberg, producing director of Stage One, a children's theatre in Louisville, Kentucky, said that the administrative consolidation with the Kentucky Center for the Arts has created some identity confusion among patrons. (For more on this strategic restructuring, see profile page 24.)

Whereas strategic restructuring that involved co-location of partners often eased access to multiple services and programs for clients, sometimes the clientele from one agency did not mix well with that of another. "We have a very diverse population. Even though most partners are providing human services," said Allan Thomas, executive director of Family Service, Inc. in Poughkeepsie, New York. "For example we have a homeless program, and sometimes there are issues about them wandering around the building . . . Initially we had homeless clients stripping and washing at the public sinks. So we installed a private shower and washer and dryer."

Of the different strategic restructuring types, mergers appear to have the most significant impact on clientele. Some respondents said that their mergers caused anxiety among clients who feared that their relationship with the organization and its programs would change. Others worried that accessing the organization would be more difficult (when mergers resulted in location changes), and that they would have to deal with a larger bureaucracy. Mergers that result in changing organization names also create confusion among clients, according to some respondents.

Other problems. When asked to indicate other problems not included in the survey list, many spoke about the time and effort required to pull off a successful restructuring and about keeping up momentum throughout the process. Virginia Purcell, executive director of United Cerebral Palsy of Western New York in Buffalo , New York told us, "Everything seems like a failure in the middle. You've got to keep at it until it takes hold."

Several respondents involved in administrative consolidations or MSOs spoke of the difficulty in planning their partnerships because they were not able to find models of similar endeavors or literature on the topic. Some involved in mergers said that they felt that they had enough information and support during the planning and implementation stages, but needed more help and assistance after the consolidation on such lingering issues as cultural and systems integrations.

Another problem mentioned was the challenge of attracting partners who were worried about preserving their individual identity and protecting assets. For example, Ray Shanahan, an employment coordinator at Orion Communities Inc. in Phoenixville, Pennsylvania reported initially having problems finding organizations to participate in a fundraising collaborative. Potential partners were reticent to share fundraising efforts, fearing that they would lose their visibility and identity among donors and that their share of revenues might not measure up to revenues from solo efforts.

Success Factors

The most important success factors, according to respondents, were the following: a staff or board member who championed the alliance (80 percent), positive past experiences with partnering with other organizations in general (74 percent), board support/encouragement (73 percent), organizational risk taking and/or growth orientation (70 percent), and positive board/executive relations (64 percent). The least important factor was: foundation funding to pursue or plan restructuring (32 percent). Organizations involved in integrations were twice as likely to indicate that positive past experiences with partnering with other organizations and that board support and encouragement were significant or very significant success factors than organizations involved in alliances. (See Table 4.)

When asked to indicate other success factors not included in the survey list, many spoke about having or establishing a high level of trust among partners and of focusing on a common mission. Virginia Purcell, of United Cerebral Palsy of Western New York, warned, “You have to be very congruent in what you say and what you believe and what you’re real intent is, otherwise the effort becomes derailed. The larger alliance in its truest form becomes derailed if someone in it is operating with a takeover agenda, for example.” Others stressed that their strategic restructuring would not have worked had not each partner gained something from participation.

Some combination of careful planning and flexibility in the face of unforeseen problems also appears to be a key factor according to many respondents. “The planning is what made it successful,” said Linda Hogan, executive director of East End Children’s Workshop in Portland, Maine. “It was 2 years of meeting and co-designing mission, philosophy, and space. So when we moved in everyone’s expectations were met.”

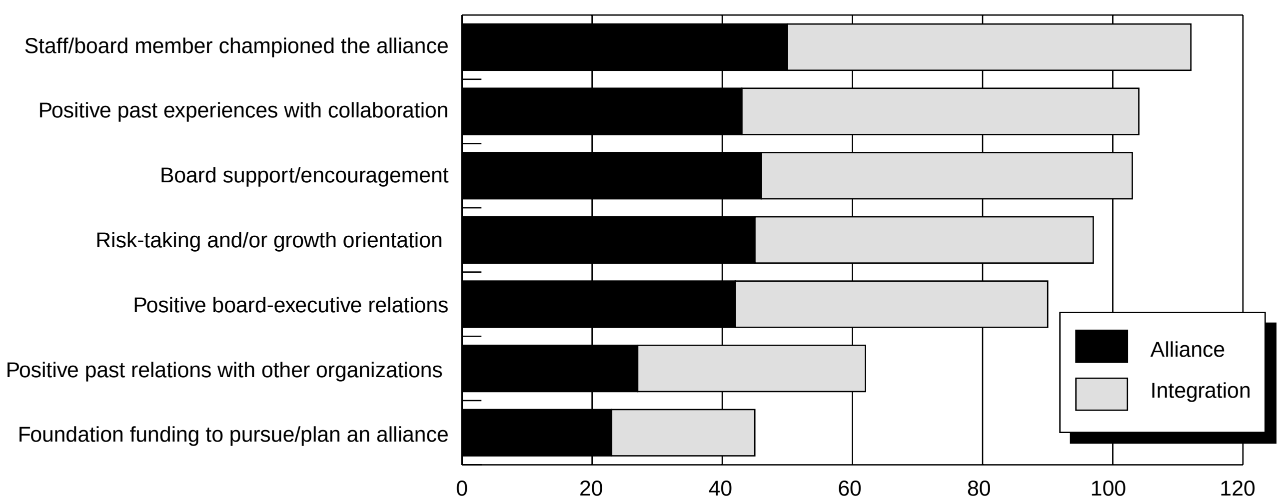
Robert J. Miller, president and CEO of HelpSource in Ann Arbor, Michigan described the painful consequences of inadequate planning: “We made a serious mistake with a home nursing program by not having the Feds audit the past records of the other organization. This ended up with a $1.2 million fine after we merged. If we had known this before, we may have reconsidered the merger. . . We inherited multiple sites, and we probably should have had a more formal plan of consolidation of facilities. My staff thought I was crazy to do this. The staff from the other organization felt that it was a hostile takeover. We should have involved more of the upper management of the other organization in the planning earlier to have them buy in.”

Because even best laid plans cannot anticipate every issue that arises, Jay C. Bloom, president and CEO of the Morrison Center Child and Family Services in Portland, Oregon, insists “You must have a high tolerance for ambiguity and flexibility. This is messy, hard work. There are no formulas.”

Communication appears to be another key ingredient in fostering trust among partner organizations, as noted by Virginia Purcell above, and also among staff within organizations. Silence or limited information from leaders about a potential or upcoming strategic restructuring seems to breed more

Table 4

Number of Respondents Who Listed Factor as “Important” or “Very Important”



fear, distrust, and misinformation among employees. Bloom adds "The real success of any collaboration will be based on the quality of relationships as demonstrated by high communication, commitment, trust, and by all means a sense of humor."

Finally, some respondents emphasized the importance of strong and clear leadership. Strategic restructuring experiences can lead to confusion about who is really in charge. Because decisions will affect the lives of many stakeholders associated with each partner organization, it is important that all involved understand who is making the decisions on which issues. "It's a lot of work," notes Thomas Fisher, president and CEO of Community Care Services, Inc. in Taunton, Massachusetts, "and demands constant attention of the organization's leaders to continually promote goodwill and the long range vision."

Discussion and Conclusions

The language of courtship and marriage often colored the survey responses and interview comments. Organizational structure and alliances may seem the least romantic of topics, but the impetus and process by which two people—sometimes gradually, sometimes suddenly—link their fates together indeed provide a useful analogy for describing why and how organizations form long-term partnerships. Trust, common goals, compatibility, flexibility, sacrifice, and, ultimately, a leap of faith move both people and organizations toward various types of union.

Through a study of 192 nonprofit social services and cultural organizations in the United States, we identified two primary types (alliances and integrations) and six subtypes of strategic restructuring (see page 1 for overview of the typology.) We found that, within our sample, organizations involved in integrations tended to be focused on human services, to have large budgets, to have active boards, and to be located in urban communities. Conversely, organizations involved in alliances tended to be focused on arts and culture, to have small budgets, to have fairly inactive boards of directors, and to be located in rural communities. We also found that very young and old organizations were less likely to be involved in any type of strategic restructuring. Respondents appear to be approaching strategic restructuring as a result of forecasting and planning rather than because of any immediate threats of closure or pressure from funders. They report that competition with other nonprofits as well as with government and for-profit organizations is an important impetus for strategic restructuring. Conflicting cultures, the adjustment of staff members, building trust among partners, and autonomy concerns were significant challenges of strategic restructuring according to respondents. They also felt that strong leadership from staff and the board as well as experience with risk taking in general and partnering in specific were key factors in the success of such ventures.

Organizational structure and alliances may seem the least romantic of topics, but the impetus and process by which two people—sometimes gradually, sometimes suddenly—link their fates together indeed provide a useful analogy for describing why and how organizations form long-term partnerships.

Looking closely at the reflections of study participants, it seems that most of their strategic restructurings began because of at least two out of three factors:

- A sudden interruption in the status quo—such as the departure of a director, a fiscal crisis, or a significant funding opportunity—that requires or propels an organization to make a significant change.
- Forward-thinking individuals (usually executive directors) who shepherd a strategic restructuring idea through opposition, sometimes working to promote and sometimes working against their own self-interest.
- A climate—either real, perceived, or predicted—that calls for a different way of doing business, such as reductions in public grants or contracts or the implementation of managed care policies.

Because most respondents had no more than 5 years of experience with strategic restructuring, they cannot be characterized as experts on what helps partnerships to endure. However many had thoughts on the subject and pointed to the following factors as promoting successful strategic restructuring:

- Leadership that believes strongly in the partnership and demonstrates this belief, often by acting selflessly to maintain it.
- Multiple forms of communication to keep all stakeholders—staff, board members, funders, clients, and others—up to date about plans, problems, and benefits concerning the partnership.
- Face-to-face communications with partner organizations in the form of meetings, trainings, parties, and other forums to build trust and understanding among staff members.
- Flexibility, even in the best-planned partnerships—an expectation that unforeseen issues will arise, that mistakes will be made, and that alternative paths will be identified.
- Early evidence of benefit to assure everyone that they are on the right track—what one respondent called "low-hanging fruit"—such as better or less expensive employee benefits or improved facilities.

In general, survey respondents emphasized *how to be* more than *what to do*. Rather than specifying the types of agreeements, consultants, or planning processes to adopt, they stressed the importance of being forthright, flexible, and focused on the big picture.

In general, survey respondents emphasized how to be *more than* what to do. *Rather than specifying the types of agreeements, consultants, or planning processes to adopt, they stressed the importance of being forthright, flexible, and focused on the big picture.*

The primary hurdles in the strategic restructuring process seem to be organizational or individual ego issues. Although strategic restructuring certainly does not call for absolute selflessness, sacrifices in the pursuit of common goals appear to be critical. Here the marriage analogy applies quite well. As the saying goes, "Marriage is when two people become as one; the trouble starts when they try to decide which one."[13]

Recommendations for Future Research

This study constitutes the first phase in a two-part project. Phase II will involve: (1) in-depth case studies of representatives of each of the strategic restructuring categories identified in Phase I; (2) a survey to determine the prevalence of strategic restructurings within certain geographical areas; and (3) interviews with national leaders and decision makers in the nonprofit and social service sectors to explore the potential impact of these types of partnerships on these sectors in the future. Phase II will culminate in the development of a manuscript for a book based on the findings of Phases I and II.

Although we hope this project advances understanding about strategic restructuring, we believe there is still much work to be done and recommend examination of the following questions:

- What are typical life cycles of strategic restructuring partnerships? Do organizations tend to begin with more informal collaborations before considering increasingly formal arrangements? What factors tend to move organizations from one type of partnership to another?
- How do federated organizations structure their relationships with their affiliates? How do the benefits of these relationships compare to those of strategic restructuring?
- What are the motivations, costs, benefits, challenges, etc. of various types of

[13] Source unknown.

alliances? (This study, due to sample size and composition, can only begin to answer these questions.)

- What is the measurable impact (in terms of dollars gained or saved, programs offered, clients served, etc.) of strategic restructuring on organizations?
- How are cross-sector partnerships similar to and different from nonprofit-nonprofit partnerships?
- How do organizations that choose to do strategic restructuring differ from those that do not?
- How do failed strategic restructuring experiences compare to those that have persisted and thrived?

Stage One and Kentucky Center for the Arts, Administrative Consolidation Profile

Stage One
Location:
Louisville, Kentucky
Type:
Children's Theatre Company
Budget:
$1.4 million (1999)
Founding Year:
1946

Kentucky Center for the Arts
Location:
Louisville, Kentucky
Type:
Performing Arts Center
Budget:
$7.8 million (1999)
Founding Year:
1983

Strategic Restructuring Profiles

Stage One and Kentucky Center for the Arts, Administrative Consolidation Profile

A financial crisis that threatened the survival of Stage One was the spark that eventually led to an administrative consolidation with the Kentucky Center for the Arts (KCA), a larger organization that could provide Stage One with administrative support and oversight. KCA is a center that books traveling companies and provides theatre space for five resident performing groups, among them Stage One. Responding to the Stage One crisis, a number of leaders in the local arts community thought creatively about how to coordinate existing resources to save the theatre group. The experience of these two organizations also illustrates how partnerships evolve as the needs and plans of the organizations change.

Background

"You might say that from the very beginning of KCA, there was a projection of an alliance," says Moses Goldberg, producing director of Stage One. The theatre group has been a resident company at KCA since its inception, and it was this relationship that formed the foundation on which the administrative consolidation grew.

Financial problems have plagued the children's theatre on and off throughout its lifetime. "The average disposable income of our typical audience member is a dollar a week," explains Goldberg, "so we can't really go to our audiences for financial support the way the opera, orchestra, or ballet do." Although they have had few problems selling their programming to school groups, marketing to public audiences has been an uphill battle. The situation became critical in 1995, when Stage One conducted a national tour, which was an artistic success but a financial failure, leaving the organization $180,000 in debt. Goldberg went to local corporations, banks, and individual donors to solicit funds or loans, but most of them lacked confidence in the organization's ability to pay back a loan or to prevent another financial crisis in the future.

Emergence of Administrative Consolidation Idea

No one remembers exactly who called the meeting, but the players at the table were: Marlow Burt, then president of KCA, Allan Cowen, president and CEO of the Fund for the Arts, Sandy Spear, administrative director for the Actors' Theatre of Louisville, and Moses Goldberg. The Fund provides 20 percent of Stage One's budget and wields significant influence as one of the major funders of arts and culture in Louisville.

Everyone at the meeting quickly agreed that the community greatly benefited from children's theatre, so the question turned to how to maintain it in one form or another. Cowen recalls that they considered three options: 1) KCA would start producing shows for young audiences, possibly through a merger with Stage One; 2) KCA would import shows from outside the city; or 3) KCA would provide the administrative infrastructure and Stage One would continue to produce the product. Goldberg notes that they took caution from an experience in Atlanta where the children's theatre merged with an adult theatre and in the process, in Goldberg's opinion, became only a shadow of what it used to be. Similarly, Michael Hardy, current President of KCA, maintains that KCA could not do children's theatre nearly as well as Stage One, which had over 50 years of experience producing shows for young audiences. Burt proposed the administrative consolidation strategy as a way to maintain the artistic quality and scope of programming while boosting its administrative foundation.

Implementation of Administrative Consolidation

Stage One exchanged control for resources. Under the terms of a management agreement, Stage One essentially received an administrative makeover. Stage One paid KCA a management fee, which KCA, in turn, used to hire Goldberg, then artistic director, and Chris Boyer, former managing director. In this way, KCA gained oversight authority. Stage One also gave KCA the $25,000 it had been spending on marketing staff to gain a portion of one of KCA's marketing staff's time along with the resources of their whole marketing department, including use of a graphic artist. Additionally, KCA began over-seeing Stage One's financial systems, sublet office space to Stage One that was better and less costly than the theatre's prior office, and provided maintenance and security to Stage One at no cost. KCA also let Stage One use its accounting and phone systems and offered a wide range of technical assistance including computer support and human resources advice. Finally, Goldberg and Boyer joined the KCA's management team.

With the assurance of KCA's backing and oversight, funders lent their support to Stage One. Goldberg and his board initially felt uncomfortable with the degree of control that they had ceded, particularly KCA's power under the management agreement to fire Stage One's director, but this was an aspect of the agreement upon which funders insisted. Goldberg took comfort in his close relationship with Burt and ultimately felt satisfied with the arrangement that, he felt, provided fiscal oversight but no "program invasion."

Both Hardy and Goldberg described how KCA gained a good deal of credibility from the partnership. To fulfill their mission of serving all Kentuckians, KCA needed to serve children. Without Stage One, Hardy feels they would have a hard time maintaining high-quality programs for young audiences. "And the school buses parked outside the facility on weekdays is great PR for us—it shows that we are using the facility to its maximum benefit, not only during evening hours."

Like Goldberg, the rest of the Stage One staff had trepidations about the partnership. Beth Conn, general manager for Stage One, recalls that the staff at first was scared of what the consolidation would mean to its independence. Many fears, she feels, were quelled when employees of both organizations met and voiced hopes and concerns about the partnership.

Administrative Consolidation in Action

The partnership allowed, in Goldberg's words, "breathing space" for Stage One to get back on its feet, and in 1 year they raised enough funds to erase their debt. Some came from the KCA endowment, some from banks that agreed to forgive debt, and some from private donations.

The greatest challenge has been in the area of marketing. It is a problem that preceded the partnership and has persisted since its inception. Cowen maintains that Stage One, like many arts organizations, places artistic concerns above market demands. Several of those involved in the consolidation, including Hardy, however, feel the primary problem has been the weakness of KCA's marketing department, which was experiencing a great deal of turnover and not doing as high-quality work as it might have. Several Stage One staff members also point to the dark side of outsourcing: "You just don't get the same type of attention you would from someone who is in house," explains Conn.

In addition to marketing challenges, Goldberg was also concerned that the success of the partnership relied on the personalities of the leaders of the two organizations. "My biggest fear was Marlow leaving. Would some Pharaoh rise up who didn't know Joseph?" When Burt did leave in 1997, Goldberg was relieved to find that the interim director and then Hardy, who was hired a year later, both saw the importance of the partnership, and it largely maintained the same character as it had under Burt.

The only bump in the road came when Hardy, soon after he arrived at KCA, hired a consultant to serve as acting managing director of Stage One and to make recommendations about the future direction of the organization. Whereas Goldberg feels that Hardy hired the consultant because he did not have time to get up to speed on Stage One, Hardy recalls that he took that course because of concerns others had voiced about the current and future leadership of Stage One. Conn and Goldberg both felt the presence of the consultant was bad for staff morale, but that his advice lent credibility to Stage One's own perspective on leadership issues. The contract was terminated ahead of schedule because issues of concern were resolved.

Following the consultant's advice and Stage One's preference, an oligarchy was formed in 1999 to manage the organization, with Goldberg as the producing director, Conn as general manager, and J. Daniel Herring as associate producing director. Although Goldberg continues to be the primary leader, the plan is that Conn and Herring will have enough experience to run Stage One when Goldberg retires.

Goldberg also continues to be on KCA's payroll, but the two organizations have begun to negotiate an affiliation agreement rather than a management agreement. And because funders no longer seem to need the assurance of KCA's oversight, Goldberg and Hardy see the relationship moving toward one limited to Stage One contracting with KCA for various types of administrative support.

In 1999, the Stage One marketing function was moved back in house. Kemnitz now coordinates marketing activities with the help of a consultant and some pro-bono assistance from a local marketing firm.

The partnership has also inspired other alliances in the local arts community. Several performing arts groups are planning a "Family Series" in which they jointly market performances that appeal to families at their respective organizations. Hardy also feels that the partnership provides a good model of how they could react if another resident group faces similar problems in the future.

Future

How the relationship will evolve remains unclear. Hardy wonders whether the partnership will diminish as Stage One needs less support, or whether it will persist as a way to maintain its healthy functioning. Goldberg thinks that the infrastructure support is critical to Stage One's survival and should continue. "There's no way we could replace the technical assistance, equipment, or space at the same cost. We benefit from the economies of scale of a larger organization." The next test of the relationship will be when Goldberg retires in the next several years. Goldberg worries that if he and Hardy leave around the same time, "It could be a disaster." In the near future, Stage One plans to take advantage of its current security and stable financial situation by working to build a cash reserve equal to 25 percent of the annual budget, and then an endowment to insulate them from funders' concerns and actual crises.

Lessons

- **Financial crisis.** "Either crisis or forward thinking prompts an alliance like this one, and in this case it was crisis," reflects Cowen.
- **Selflessness.** Goldberg maintains that arts organizations find ways to work together in a resource-poor environment. "It worked because Marlow and I wanted it to work," maintains Goldberg, "It's like a marriage, you have to give up some things to get some things."
- **Good match.** Goldberg points to the compatibility of the two organization's missions and their history of sharing theatre facilities as key factors in the successes of the consolidation.
- **Team spirit.** Conn feels that it was critical that the entire staff "from the top down" was committed to making the partnership work. "It has been important to not blame others and to promote the sense that we are all in this together."

Interviewed:

Beth Blakely
Former Marketing Associate
Kentucky Center for the Arts

Beth Conn
General Manager
Stage One

Allan Cowen
President and CEO
Fund for the Arts

Moses Goldberg
Producing Director
Stage One

Michael Hardy
President
Kentucky Center for the Arts

Robert Kemnitz
Marketing/PR Coordinator
Stage One

Open Arms Domestic Violence Shelter and Rape Crisis Services and Century Health, Joint Programming Profile

Open Arms and Century Health chose to form a domestic violence offenders program together rather than operate separate programs. "Hancock County is just large enough to support one of each type of human service organization," explains Rebecca Noack of the United Way of Hancock County. So, when Century Health began to form a competing program for domestic violence offenders, Beth Meeks, Executive Director of Open Arms, knew that they were facing a crisis. "We just didn't have the resources to compete," admits Meeks. Although this threat drove the partnership, those involved point to the positive relationship between the executive directors of the two agencies, the coordinating role of the local United Way, and the culture of the community as important influences on the form the partnership took.

Background

Both organizations involved in the joint program had had some experience with partnership and consolidation before they entered their alliance with each other. Century Health is the result of a 1998 merger among a family service organization, a substance abuse agency, and a community mental health center. That merger came about largely because of concerns at each agency that they had neither the range of services nor the administrative infrastructure to survive in a managed care environment.

At the request of the local United Way, Open Arms considered a merger with a homeless shelter in 1998. However, after many conversations with the staff at the other organization, both groups concluded that their programs did not mesh well due to the different needs of their respective clienteles. Moreover, they believed that a consolidated organization would cost more to operate than the cost of their separate operations combined due to necessary increases in salaries and insurance expenses as well as potential loss of support from certain funders.

Open Arms' consideration of and Century Health's implementation of a merger helped to orient them to the idea of a partnership, as did the fact that both organizations were United Way agencies. The executive directors knew each other from United Way forums in which organizations were educated about and encouraged to collaborate.

By late 1997, Open Arms' domestic violence offenders program was in trouble. It was losing money, and the court system, which required that offenders participate in the group counseling program or do jail time, had expressed concerns that the psychologist facilitating the group was not confrontational enough with participants. Because Open Arms shared these concerns, it began to research best practices in the area of offender services as a first step in revamping the program.

At the same time, according to Meeks and Sue Smith of Open Arms, the first CEO of the newly merged Century Health was looking for ways to increase revenues by adding services that qualify for reimbursement through insurance companies and public agencies.[14] Meeks says she learned through the grapevine that the Century Health CEO had approached a local funder about supporting an offenders program. Meeks was unhappy with the origination process. "You can't have two United Way agencies running the same program and competing against each other in a community this size. Century's staff was not specifically trained to handle domestic violence issues. Open Arms is the only agency in the community that specializes in domestic violence. I felt that he tried to ignore and circumvent us." Some believe that the Century CEO was ultimately interested in a merger with Open Arms and was trying to force the issue by forming a competing offenders program.

Emergence of the Joint Programming Idea

Meeks confronted the Century CEO about her concerns, but did not present her agency as a rival. She felt that Open Arms could not successfully contend with Century. Not only did they lack the resources to compete, they had come to realize that to run a program that incorporated the best practices in the field, they actually needed additional resources. "There wasn't any other choice but to work with them," concedes Meeks.

It was around this time that the Century Health CEO took another job in a different community and Philip Atkins, the former director of one of the original organizations in the Century merger, assumed leadership. It was also at this time that another community need was emerging. A group of local leaders concerned about domestic violence decided that Findlay should have a visitation center where offenders could have supervised visits with their children. Due to their expertise in the area, Open Arms was the most likely organization to run such a center, but Meeks felt that they lacked the necessary resources, particularly space, to operate it by themselves.

"Simply put, they had the costumes, and we had the barn, so the show went on," relates Atkins. To operate an effective offenders program, Century needed Open Arms' expertise with domestic violence issues, and because 80 percent of offenders have substance abuse problems, Open Arms could benefit from Century's understanding of these issues. Additionally, Open Arms required additional resources to operate both programs, resources that Century had.

Open Arms Domestic Violence Shelter and Rape Crisis Services and Century Health, Joint Programming Profile

Open Arms Domestic Violence Shelter and Rape Crisis Services
Location:
Findlay, Ohio
Type:
Domestic Violence Shelter and Rape Crisis Services
Budget:
$280,000 (1999)
Founding Year:
1981

Century Health
Location:
Findlay, Ohio
Type:
Multi-Service Mental Health Center
Budget:
$3.4 million (1999)
Founding Year:
1998 (as a result of a merger)

[14] Meeks and Smith both noted that because participation in the Open Arms' offenders program is mandatory and not psychologically based (i.e., domestic violence is not labeled as a disease), the program is not eligible for reimbursement. They believe, however, that the then CEO of Century Health mistakenly thought that he could increase revenues through reimbursement.

Interviewed:

Philip Atkins
Chief Executive Officer
Century Health

Beth Meeks
Executive Director
Open Arms

Rebecca Noack
Chief Professional Officer
United Way of Hancock County

Sue Smith
Program Assistant
Open Arms

Implementation of Joint Programming

Meeks and Atkins began to work on a formal agreement to jointly manage and operate the two programs for offenders. Atkins' board of directors accepted the agreement without too many concerns. The Open Arms board, however, had the recent Century Health merger in mind and wanted assurances that their organization's autonomy would be protected. They feared that the joint programming might put them on a slippery slope toward merger. Their interest in maintaining an organization solely focused on domestic abuse grew from two primary concerns. The domestic violence field has less certification standards than many mental health areas, and the Open Arms board did not want to become more regulated and bureaucratic as a result of a consolidation with Century. Additionally, there was concern that the domestic violence work would, in Meeks words, "get watered down" within the context of a larger agency. In the end, the Open Arms board followed Meeks' lead, deciding that the written agreement would help to maintain their independence and that victims of domestic violence would be in greater danger if they left the offenders program to an organization with less proficiency in the area.

Joint Programming in Action

A new offenders program, co-facilitated by Meeks and Atkins, started in September 1999. Under the agreement, the agencies also began joint training sessions to share the expertise of their respective staffs. Century serves as the fiscal agent for Harmony House, the visitation center, and Open Arms is the fiscal agent for the offenders program. Atkins and Meeks jointly supervise the manager of Harmony House, who is technically on the staff of Century. Century also provides the facility for Harmony House, and Open Arms contributes some staff support to the manager, who is the only person who works full time with Harmony House. No funds are exchanged between the two agencies.

Future Plans

Currently the joint programs are heavily reliant on Meeks and Atkins. The executive directors both hope to spread the responsibilities among their staffs in the future. Atkins is also interested in establishing separate budgets for the programs to facilitate fundraising for them and to track their expenses.

Lessons

- **Personal relationships.** Meeks and Atkins stress the importance of their relationship with each other. They feel that their personalities work well together and that they were both willing to be open-minded, to listen to one another, and to respect each other's expertise.
- **Funder encouragement.** The two executive directors as well as Rebecca Noack of the United Way of Hancock County spoke of the United Way's role in orienting the directors toward partnership building. Noack emphasized that the United Way encourages grantees to share training, equipment, space, and staff.
- **Community culture.** The United Way's focus on collaboration grew out of the larger community's concern about being philanthropic and careful not to waste money. Noack notes that no one wants to see a new nonprofit in town, with a full array of overhead needs, if a job can be done by existing institutions. The small size of the community also appeared to nurture collaboration. The leaders of the public and private agencies often run into each other at Rotary Club meetings and various board meetings, and they intentionally recruit each other for community task force collaboratives.
- **Competition.** Meeks stressed that for all of the sunny talk about collaboration, it was competition that first spurred their joint programming with Century. "It had benefits for both organizations," says Meeks, "but it didn't arise out of a benign care for each other or even for our clients."

Suicide Homicide Audit Committee, Joint Programming Profile

The Suicide Homicide Audit Committee (SHAC), a partnership among a wide range of public and private agencies, aims to prevent future youth deaths through a retrospective, violent death case review process. The SHAC uses what it learns in this review process to propose and advocate for improved prevention and intervention strategies, policies, and legislation. The Children's Initiative, San Diego County Health and Human Services Agency, and the San Diego Police Department jointly coordinate the joint program.

Background

When Dr. Robert Ross came to San Diego in 1993 to serve as County Director of the Health and Human Services Agency (HHSA) two committees immediately captured his interest: the San Diego Medical Audit Committee and the San Diego Childhood Fatality Review Team. Both committees, created as a result of local ordinances and run by the County of San Diego, review trauma deaths to determine if acceptable and appropriate acute care was provided by emergency services and hospital staff. Dr. Ross hoped to expand these review efforts by creating a new committee that would involve a partnership from a wide spectrum of public and private agencies and departments that serve youth and families. This committee would review the suicide and homicide deaths of youth. The difference between Ross's vision and the two existing committees was that the new group would focus on an untargeted population, youth between the ages of 8 to 24. The group also would review cases to determine whether a broad range of public and/or private agencies and departments, not just health care organizations, had followed appropriate policies and provided appropriate services and care. It would then advocate for program, policy and/or legislative changes based on its findings.

Emergence of the Joint Programming Idea

In 1995, Ross approached Sandra McBrayer, executive director of The Children's Initiative, about his idea for the Suicide Homicide Audit Committee (SHAC). The Children's Initiative is a child advocacy agency that acts as a neutral convener for local coalitions and collaborations. The Children's Initiative brings together agencies, departments, and organizations that have not worked together, yet have common goals. Ross, as a member of The Children's Initiative's board, felt that it was the ideal organization to convene a diverse group of partners for the SHAC. Additionally, because the Children's Initiative is a private nonprofit agency, Ross felt that it could provide a level of flexibility and creativity that, according McBrayer, is not typically found in large governmental bureaucracies.

McBrayer and Ross brainstormed about potential partners. They both realized that the formation of SHAC would require a broad-based mobilization of private and public entities that had potentially touched the lives of deceased youth at some point between the initial identification of a problem and a fatality. They knew that no one organization had all of the data and contacts needed to make sense of why and how a youth fatality had occurred. The scope of the challenge was particularly appealing to McBrayer, as it would test The Children's Initiative's ability to assemble different government agencies that, in the past, had not often shared information with each other, let alone with private organizations. McBrayer saw it as an opportunity to demonstrate that cross agency collaboration and information and data sharing would greatly benefit the well-being of youth and their families in San Diego's communities.

Implementation of Joint Programming

With The Children's Initiative and HHSA's commitment of time, energy, and staff, Ross and McBrayer invited representatives of a wide range of agencies to join a planning group. Initially, many invitees were skeptical and reluctant to take part in the project. Ross and McBrayer explained to potential partners there was not a review process in place to analyze violent deaths of young people in their community. Some were wary of Ross and McBrayer's objective. "I had to convince people—even colleagues—that violence is a preventable disease," recalls Ross. Others agreed with its goal but were

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Suicide Homicide Audit Committee, Joint Programming Profile

The Children's Initiative
Location:
San Diego, CA
Type:
Child Advocacy Organization
Budget:
$350,000 (1999)
Founding Year:
1991

The San Diego County Health and Human Services Agency
Location:
San Diego, CA
Type:
Public Health Services Department
Budget:
$1.2 billion (1997–98)

Other partners:

County of San Diego
Sheriff's Department

County of San Diego
Juvenile Probation

Office of the District Attorney

EYE Counseling and
Crisis Services

Juvenile Court

Medical Examiner's Office

Mental Health Services, Health and Human Service Agency

Scripps Mercy Hospital,
Trauma Research and
Education Foundation

United States Naval Medical
Center, Department of
Psychiatry

U.S. Marine Corps,
Family Service Center

United States Naval Military
Family Advocacy Services

United States Naval
Criminal Investigative
Services

Youth Service Network

Oceanside Police Department

Palomar Community College,
Counseling Services

San Diego Unified
School District

San Diego Youth and
Community Services

San Diego Police Department

San Diego Southern Baptist
Association

UCSD Medical Center

Wellness Foundation Violence
Prevention Fellowship

less sure about how they could work to address the issue. Twenty-six entities were invited, and after many rounds of phone calls, meetings, lunches and pointed invitations to explain, convince or cajole, all twenty-six showed up at the first meeting.

The group met over a four-month period to plan the review process and negotiate the roles and responsibilities of all of the partners. "Keeping everyone at the table and openly sharing proved more challenging than bringing them together in the first place," according to McBrayer. Some of the original members were apprehensive about sharing sensitive information and data with other agencies. They did not always understand the connection between the SHAC's review and their agencies' focus. Many were familiar with focusing on a specific program or service rather than on its connection to the mission of their agency, or its larger relationship to the well-being of the youth. Some members were fearful if they shared all they knew at the SHAC meetings, their department or agency would be blamed for fatalities. Only after much discussion about how working together and honestly sharing could ultimately save young peoples' lives did many change their perceptions of the SHAC and embrace the program's mission.

Several months prior to the planning process for the SHAC, HHSA launched a county-sponsored department called Violence Injury Prevention (VIP). One of the many responsibilities of VIP was to staff and coordinate the SHAC meetings and its research. The county's VIP department is co-located at the offices of The Children's Initiative, another example of a public/private partnership. Four VIP staff are responsible for the research, meeting planning, minutes, and staff support for the SHAC. Linda Wong Kerberg, the current manager of the VIP office, notes, "As a county employee, it is great to be an invited guest working side by side and housed with local community organizations. It is a true example of partnering. Though the cultures are very different, we all come together in our mission to better serve our young people." Initially McBrayer contributed 25 percent of her time to the effort, Ross 10 percent of his time, and VIP staff 30 percent of their time.

Joint Programming in Action

The SHAC reviews all youth suicide and homicide cases in San Diego County. The twenty-six SHAC partners share pertinent information for each case their agency had contact with, identify risk factors for each case, and determine the level of intervention that should or could have taken place. The SHAC committee then formulates specific recommendations for each case regarding procedural, programmatic, or policy changes. All SHAC partners sign a confidentiality agreement, which prevents them from discussing outside of the SHAC any case review information covered in the SHAC meetings.

Occasionally, the SHAC agencies advocate program implementation or policy changes before the County Board of Supervisors. In 1996 the SHAC presented the Board of Supervisors with their first year-end report and recommendations. The presentation was made by Ross and McBrayer, with the help of more then 30 at-risk youth. The youth presented a shoe to represent to the Supervisors each of the 118 youth deaths for that year. The presentation highlighted the SHAC's assertion that it was in the after-school hours that youth, specifically middle school youth, were in the most danger for suicide and homicide. The Board of Supervisors, based on recommendations from McBrayer, Ross, and the SHAC, funded and implemented more than 30 after-school programs for middle school youth countywide.

Ross also feels that the SHAC's recommendations have successfully promoted the importance of drug treatment programs for young people and their parents, and points to the 300 percent increase in the number of such programs as a result of the SHAC's advocacy. According to Ross, the SHAC has also helped to bring about "services on demand" programs offered through the family court. When a juvenile or family court judge requests a drug or alcohol treatment program or service, the human services community is now mandated to respond and provide the recommended service. Such programs have helped parents to more quickly overcome their addiction problems and be reunited with their children.

Additionally, the SHAC has educated public agencies, especially in the area of law enforcement, about services available to individuals and families in nonprofit organizations. Indeed, according to Brad Wiscons, a SHAC member representing the EYE Counseling and Crisis Services, "Everyone involved in SHAC has learned about policies and programs previously unfamiliar to them." Another important benefit of SHAC, according to Kristin Shea, Task Force and Youth Liaison for Children's Initiative, is that "SHAC has enhanced collaborations and developed an informal network of communication among agencies serving children and youth." For example, the San Diego Police Department, the San Diego Unified School District, and the Probation Department are now working to merge portions of their databases to better track young people involved in or at risk of becoming involved in high risk behaviors.

Future

The SHAC partners continue to look for joint opportunities locally, and many of the lead partners are helping organizations in other communities to implement the SHAC model of review and partner collaboration.

Lessons

- **Patience when working with public partners.** The SHAC participants found that a public/nonprofit partnership can take time to establish. Even with four months of initial planning, participants continue to have meetings and negotiations about roles and responsibilities of each partner.
- **Strength in numbers.** Educating and communicating with the community is a continuing critical part of the process. The number of organizations involved in the project strengthened the efforts to implement the recommendations.
- **Careful recruiting.** Bringing all potential partners to the table at once may not be the best way to initiate a partnership of this type, according to McBrayer. There may be some who are not fully interested in or committed to partnering, and it can be hard to uninvite these entities later in the process. Meeting individually with organizations that might be interested at the beginning of the process offers an opportunity for weeding out those organizations that might not be committed, and that might otherwise come to the table just to avoid being left out.

Interviewed:

Linda Wong Kerberg
Assistant Director
Community Initiative
Health and Human Services Agency

Sandy McBrayer
Executive Director
Children's Initiative

Robert Ross, M.D.
Director
Health and Human Services Agency

Kristin Shea
Task Force & Youth Liaison
Children's Initiative

Brad Wiscons
Director of Youth and Community Empowerment Services
EYE Counseling and Crisis Services

West Suburban Management, MSO Profile

West Suburban Management, a management service organization (MSO), began with a sudden leadership vacuum. This, combined with prevailing concerns about emerging managed care policies, led the Fillmore Center for Human Services and Community Family Service & Mental Health Center (CFS) to embark on a novel partnership. The two mental health centers, located in adjacent suburbs of Chicago, formed an MSO that demonstrates the critical roles of a strong executive team and a forward-thinking board.

Background

In 1995, the executive director of Fillmore died suddenly, leaving the staff with no heir apparent. Clinical director, Judy Faigen, became the interim director, but was not interested in the position long term. The board thus began a national search.

At the same time, the CFS board was closely watching the managed care trends in the mental health field. They were worried that a larger organization better equipped for the managed care market, like a hospital, might begin providing outpatient mental health services, making it difficult for a smaller, community-based provider like CFS to compete. "The new market mediates against small providers," maintains Joe Drago of the CFS board. "And we felt that trend would require more networks." Indeed, even without the demands of managed care, they were outgrowing their administrative infrastructure.

Mary Stecher, the long-time Executive Director of CFS, began to research alliance options through forums sponsored by associations of mental health organizations and articles on the topic. She and the board also formed a committee to consider various types of partnership arrangements and to look for potential partners, including hospitals and mental health agencies.

West Suburban Management, MSO Profile

Fillmore Center for Human Services
Location:
Berwyn, Illinois
Type:
Multi-Service Mental Health Center
Budget:
$3.8 million (1998)
Founding Year:
1928

Community Family Service & Mental Health Center
Location:
Western Springs, Illinois
Type:
Multi-Service Mental Health Center
Budget:
$5.1 million (1998)
Founding Year:
1956

Emergence of the MSO Idea

The ball got rolling with a phone call. A Fillmore board member contacted Stecher with what he called "an off-the-wall idea." He was thinking about how Fillmore might ally with another organization rather than hire a new executive director, and he was particularly interested in her reputation as a strong leader. Intrigued with the idea, given CFS's interest in partnerships, Stecher discussed the idea with her board, which agreed that it was worth exploring. Stecher and Faigen alerted their staffs about the committee's existence and kept them up to date on the discussions. This created some worries about job security, but it also seemed to breed confidence that the directors would make sure they were informed.

A committee composed of several members of each board, Ann Schreiner of CFS, Stecher, and Faigen met during the next 6 months to discuss possible partnership arrangements. Much of the talk centered on identity and autonomy issues. CFS was in a stronger financial position which raised questions as to how to deal with assets. Mr. Fillmore, for whom the Fillmore Center was named, was concerned that the name not be altered. In addition, CFS was unionized, and Fillmore was not. For these reasons as well as others the committee ruled out a full-scale merger. The committee finally settled on an MSO structure. Their plan, unlike any other partnership they knew of, allowed each organization to maintain its identity and a great deal of autonomy by creating a new organization that would provide management support but would be essentially invisible to the outside observer.

Implementation of MSO

The next step was to begin a process of due diligence. An outside consulting firm was engaged to develop a business plan. Drago of the CFS board along with the committee revised the plan adding greater specificity. Knowing that the restructuring could raise concerns with funders and community leaders if they were not apprised of it, Stecher met with many stakeholders to build support for the MSO, including the local United Way (which funds both agencies), the local mental health boards, and the mayors, aldermen, and state representatives from their communities.

West Suburban Management Services was incorporated and became operational in July 1997 when both organizations signed a 3 year agreement to use its services. A "bridge board," which includes two members from both boards plus one outside member, oversees the MSO. The two boards also have formed some joint committees in areas where they feel that combined resources and expertise will be mutually beneficial, including the resource development committee and the board development committee.

The MSO technically has no employees because it is difficult to purchase benefits at a reasonable cost for only seven employees. It functions by contracting with Fillmore and CFS for several administrative employees, including the controller, the director of management information services, the director of revenue development, the director of managed care, and all other financial staff. Stecher serves as president of the MSO and CEO of each of the affiliates, and each of the organizations has a separate director of operations. The clinical staffs continue to operate largely independently. As new staff members are added to the MSO, they have the opportunity to chose between the affiliates in terms of benefit packages. The restructuring preserved existing staff positions.

MSO in Action

Stecher and several CFS staff moved into a newly rehabbed administrative office at Fillmore in December, 1998. Stecher and others speak of the important psychological effect of her move to this office. As long as she remained at CFS, it was difficult on both her and Schreiner, the new director of operations, to establish their respective new roles. Schreiner needed to establish her leadership, and Stecher needed to become more knowledgeable about Fillmore.

The adjustment has not been easy for the administrative staff. Prior to the MSO, each organization had a bookkeeper who managed the finances. After the restructuring, the MSO hired Gail Vijuk as controller, a new position, to oversee the financial staff and to integrate and improve the quality of their financial systems. Some felt a new person was essential to lead the restructuring—someone who would neither in actuality nor in appearance favor one of the agencies.

At first, administrative staff continued to do their old jobs for their own organizations working side by side with their counterparts at the other organization. Over time, Vijuk has restructured jobs along functional lines rather than organizational lines, helping to increase the efficiency and cohesion of the staff. However, challenges remain. "It's difficult to have people working in the same office who have different benefit plans and holidays," notes Vijuk. Stecher hopes to eventually increase the size of the administrative staff, making it possible to have a separate MSO staff with its own benefit plan.

"We wouldn't have made it without big changes," maintains Faigen, and Stecher agrees that the MSO has helped both organizations to survive in a changing environment. Each organization has brought important strengths to the table. Fillmore had experience with managed care services. CFS had strong leadership and was well-regarded by funders.

Many of the benefits of the MSO have resulted from economies of scale. For example, at the time they came together, both organizations were in need of stronger financial oversight, but neither had the funds to secure it. "To hire the type of people we needed, we would have had to divert money from the program," notes Stecher. Combining resources has also allowed them to purchase management information systems and financial systems that more efficiently serve the organizations.

Although the emergence of managed care policies has not been as imminent as predicted, "it's still there under the surface," says Stecher, "and we'll be ready if and when they dominate the mental health field." In general, she feels that they are in stronger position to weather the next economic downturn and to respond to funders' ever-increasing demand for the type of outcome data that their new information systems track.

Perhaps the greatest challenge has been establishing the new business infrastructure. The CFS systems were, in general, more developed, and at times the Fillmore staff felt invaded and overwhelmed by CFS. Moreover, due to the differences in salaries and benefits, it has been difficult to merge the staffs into a team.

Stecher also reports that the change in leadership at CFS created a number of challenges. Having one person in the executive director position for so many years who was so identified with the organization, it was hard to create a new identity and set of relationships. Due to the creation of the new reporting structure, the lines of authority between the CEO and directors of operations at the two organizations were at times confusing. The organizations have developed clearer position descriptions, but there continues to be areas where there is confusion.

Future

There is some concern among staff that the MSO represents the first step toward a merger. And although Stecher, Vijuk, the two directors of operations, and Drago all feel that it is an idea worth considering, Stecher believes that there are a number of important issues that they must consider before the a merger can be properly addressed.

As they near the end of their 3-year agreement, Fillmore and CFS have engaged a consultant to help them plan for the future of the partnership through a meeting of the leadership of both boards and interviews with internal and external stakeholders about their concerns and hopes for the future of both organizations. Whether or not the next step is a merger, many see the relationship becoming a closer one, with further consolidations affecting both the clinical and administrative work of the agencies.

Lessons

- **Strong executive and board team.** Vijuk, Stecher, Schreiner, and Faigen speak adamantly about the importance of a strong executive team that works well together in addressing the myriad issues that arise in forming and maintaining an MSO. Stecher also stresses that, even with effective executive leadership, this type of significant change cannot occur without strong board support.
- **Mutual respect.** Commonalities of mission and mutual respect have been other key factors. The staff members interviewed for the study expressed neutral to strong respect for the work of the other organization.

Interviewed:

Joseph Drago
Board Member
Community Family Service and Mental Health Center

Judith Faigen
Director of Operations
Fillmore Center for Human Services

Christine Levy
Program Director
Fillmore Center for Human Services

Ann Schreiner
Director of Operations
Community Family Service and Mental Health Center

Ms. Mary Stecher
Chief Executive Officer
West Suburban Management Services

Lynn Turovetz
Coordinator, Crisis Services
Community Family Service and Mental Health Center

Gail Vijuk
Controller
West Suburban Management Services

Mr. Gilbert Zych
Executive Director
Lyons Township Mental Health Commission

Partners for Community, MSO Profile

Corporation for Public Management
Location:
Springfield, Massachusetts
Type:
Multipurpose Human Service Agency
Budget:
$9,920,553 (1999)
Founding Year:
1980

New England Farm Worker's Council
Location:
Springfield, Massachusetts
Type:
Multipurpose Human Service Agency
Budget:
$29,001,290 (1999)
Founding Year:
1971

Brightwood Development Corporation
Location:
Springfield, Massachusetts
Type:
Business, housing, and job development
Budget:
$341,000 (1999)
Founding Year:
1977

Career Point
Location:
Springfield, Massachusetts
Type:
Career development and employment services
Budget:
$1,700,000 (1999)
Founding Year:
1996

International Language Institute of Massachusetts
Location:
Springfield, Massachusetts
Type:
Language school
Budget:
$650,000 (1999)
Founding Year:
1984

- **Gradual change.** Although the future of the partnership is not clear, some hope and others fear that it will lead to a full-scale merger. Those in the former group seem to feel that a gradual consolidation is preferable to an abrupt one because it puts less stress on the staff and allows them to consolidate functions where and when they make sense.
- **Communication.** While there was consistent communication among those immediately affected by the affiliation, the communication to the two administrative teams of each affiliate was not as effective. Meetings are now occurring that involve administrators in the strategic planning for the next three-year plan.
- **Neutral leadership.** The presence of a new, neutral party to shepherd the organizations toward the new MSO structure has also been helpful. "It would have been extremely difficult to do if I had been attached to one of the organizations," notes Vijuk, controller of the MSO.

Partners for Community, MSO Profile

Forward thinking, rather than an immediate crisis, set the stage for Partners for Community (PfC), a management service organization (MSO) with two founding partners and three affiliate organizations. Like West Suburban Management (see page 31), PfC arose in response to changing funding conditions and leadership that was looking for new solutions to administrative problems.

Background

Corporation for Public Management (CPM) is a social service agency providing adult and juvenile community corrections, day vocational and residential mental retardation programming, and welfare to work services in Massachusetts and Connecticut. Jerome Weiner, chief executive officer of CPM since 1985, reports that by 1993 CPM was struggling to cover its overhead costs. Because their government grants and contracts were growing more slowly than the cost of living, the CPM board began to discuss how to increase revenues and decrease expenses.

Around the same time, the New England Farm Workers Council (NEFWC), another large human service agency dependent on public funds, was facing similar challenges. NEFWC serves low-income families, many of whom are Latino, by distributing public assistance for day care and home heating expenses and providing adult and family homeless services, farm worker services, and youth employment programming. NEFWC's long-time leader, Heriberto Flores, has successfully used his political acumen and influence to build the organization. Many of NEFWC's government grants are "pass through," providing little or no provision for overhead expenses associated with administrating such programs. Additionally, because NEFWC was rapidly expanding, Flores needed a larger management team.

Emergence of MSO Idea

Concerns such as these, as well as his longtime professional friendship with Weiner, led Flores to call Weiner one day in 1996 to discuss the possibility of a merger. When asked if the notion frightened him, Weiner responds, "No, I wished I had thought of it. It was scarier to think of what the future of CPM might be without some significant changes." The two directors began to brainstorm about possible partnerships or consolidations. They ruled out a full-scale merger because they learned that dissolving their organizations and establishing a new one would jeopardize some of their government contracts. Additionally, neither organization wanted to lose the good reputation associated with its name. Weiner proposed the MSO structure after researching its use in the health care field. The MSO structure was appealing not only because it allowed both organizations to maintain their identities and a fair amount of autonomy, but also because it seemed less complex and safer than a merger. "It's something you can walk away from," notes Weiner. The MSO form also provided a relatively easy way for other organizations to join them, thus increasing the human and financial resources available to all of the partners.

Implementation of MSO Idea

Weiner was concerned about how the two boards might react to the idea, knowing that ego issues among board members can kill merger and affiliation talks. He was surprised and reassured at a joint meeting of the boards when several CPM board members knew NEFWC members. Moreover, no one seemed to feel threatened by the idea because the MSO would leave both boards intact.

Many meetings with funders, policy makers, and other stakeholders followed. Most of them agreed the MSO was the way to go. Jim Asselin of the Hampden County Employment and Training Consortium admits that the amount of their grants that they allow grantees to use for administration (3 to 5 percent) is "obscenely small," and thinks that the MSO is a good way for organizations to stretch their administrative dollars. He also hopes that the MSO can help maintain administrative quality and management stability for the organizations involved, some of which have experienced a great deal of turnover, especially among finance staff.

Weiner and Flores easily determined their respective roles in the MSO. Because Flores had strong political credentials in the community, he became the chairman of PfC and focuses on public relations work. Due to his interests and strengths in operations, Weiner serves as President and Chief Executive. Although a staffing chart would show Weiner reporting to Flores, they essentially work as partners.

To announce the new structure to their staffs, Weiner and Flores rented three rooms in a hotel. First the staffs met separately with their own directors and were given time to ask questions. Then both staffs met in a large ballroom along with a consultant with expertise in nonprofit mergers and alliances. Reactions were mixed. Some were relieved that the plan was to grow rather than contract, but others expressed fears of a future merger and loss of jobs and influence within the MSO structure—especially middle and senior management whose jobs were most vulnerable to economies-of-scale measures.

Weiner and Flores followed the big announcement with a series of meetings and one-on-one discussions to answer questions about how the changes would affect particular positions. "We wanted to make certain that individuals felt a stake in the MSO," recalls Flores. At the beginning, Weiner and Flores vowed that there would be no layoffs and struggled to keep the promise by helping some staff to adjust to new positions needed for the new structure. Some had trouble with the transition and left their jobs. And after 2 years, they let go of a vice president and fiscal officer because their positions were made obsolete by the MSO, and the leadership could not find a way to keep them on staff.

The plan is to separately incorporate the MSO as a nonprofit organization, but PfC has had trouble securing the 501(c)(3) tax status. The Internal Revenue Service is concerned that the MSO serves organizations with different missions and may unfairly compete with for-profit MSOs. So, although the administrative staff function as a PfC staff, it is technically composed of CPM and NEFWC employees. PfC's board includes members from each of the founding organizations' boards.

The first savings came when CPM moved into the same building with NEFWC in November 1996. The physical proximity of staff also has helped to solidify the staff operationally and psychologically. In 1998, they purchased an adjacent building where the programming of several other MSO member organizations is located.

Another action they took early on was to hire Jeff Greim as the Chief Operating Officer for PfC. He has overseen the transfer of all of the financial information to one accounting program and has reorganized the flow of work so that the financial staff work according to function rather than agency. The larger perspective and impartiality of an outside person was critical to the integration process, according to Jane Malone, PfC's Vice President for Administration. Greim admits that he wrestles with how much he should push staff to adapt to new roles. "It's a balance between gutting what you have in order to make room for something new or allowing what you have to evolve into what you want it to become," says Greim.

MSO in Action

In 1997, the International Language Institute, a language education center, joined PfC, and in 1998 Brightwood Development Corporation, a small community development corporation, became an affiliate. The

Interviewed:

James Asselin
Executive Director
Hampden County
Employment and Training
Consortium

Heriberto Flores
Chairman
Partners for Community

Jeffrey Greim
Chief Operating Officer
Partners for Community

Jane Malone
Vice President for
Administration
Partners for Community

Senator Linda J. Melconian
Senate Majority Leader
The Commonwealth of
Massachusetts

Benjamin Ramos
Board Member
Brightwood Development
Corporation

Eric Thomas
Vice President for DD/MR
Vocational,
Rehabilitative, and
Residential Services
Corporation for Public
Management

Jerome Weiner
President and Chief
Executive
Partners for Community

most recent affiliate is Career Point, an employment training center. To become an affiliate, an organization must be incorporated as a nonprofit under section 501(c)(3) of the tax code, sign a confidentiality agreement, and cooperate with a due diligence process focused on fiscal issues. The next step is to sign an affiliation agreement that enumerates the responsibilities of the affiliate and of PfC.

Currently, all of CPM and NEFWC's administrative funds go to PfC, and the other affiliates pay flat fees based on a percentage of their overall budget. Greim predicts that eventually they will have a two-tiered system in which one group of affiliates use all of the services of the MSO and pay a percentage of their budget while others use select services for a flat fee. The administrative functions of PfC include: fiscal services, human resource services, information and technology services, program space and procurement services, and organizational development.

As planned, all of the affiliates have gained from being part of a larger entity. "Improving our information technology was reason enough for us to come together," claims Weiner. "To develop and maintain the computer systems needed for financial management and program tracking, you either have to make a large capital investment or enter into a long-term lease, and both sap resources. Economies of scale really make sense in this area."

The MSO also provides a way to respond to two primary, seemingly contradictory, concerns of public funders. On the one hand, government agencies find it easier to provide a few major grants to large organizations rather than oversee many smaller grants to grassroots agencies. On the other hand, they are interested in community-based approaches to human service needs. PfC can address both concerns.

Another key benefit, according to Weiner, has been his partnership with Flores. "An executive director often gets filtered information from his or her staff. Now I have someone to bounce ideas off of, someone to challenge me. . . . A partner is a better thing to have than a competitor." Cultural differences have been a challenge in the MSO. Malone describes NEFWC as a top-down type organization, while CPM has a looser, decentralized management structure. Although they have yet to find a perfect way to marry the cultures, Malone notes that "For PfC, we are trying to find a middle ground."

The MSO has confused some in the broader community. Although a front page article in the local paper helped to clarify the structure, many continue to view it as a merger. PfC has worked to explain its function through newsletters, a website, and face-to-face communications. However, even those who understand PfC do not necessarily love it. Weiner and Asselin note that in a city of 150,000, the five affiliates working together make a tough competitor for other human services organizations. There is also some concern in the state government about the growing power and influence of PfC.

Future

PfC's services have generated interest in the human services community. They continue to consider new affiliates, and funders are referring some of their grantees to PfC. Plans for the future include instituting a central intake process for clients of all affiliates. To continue and strengthen their work, PfC also is looking for other MSOs in the human service sector with which they can compare their progress.

Lessons

- **Leadership.** Reflects Weiner, "I think we [Flores and he] were old enough and mature enough to say that it wasn't about us anymore. We were considering things that transcended ego issues. . . Too often mergers and affiliations start out with 'What does it mean to me?' We were able to move beyond that very quickly."
- **Taking it slowly.** Malone and Greim both spoke of the wisdom of a slow approach that allows staff to gradually adjust their skills and outlook to the new structure.
- **Client-based solutions.** "We make all decisions on the basis of what it would mean for the participants," says Weiner, "because if we save money but don't provide a better service, then we shouldn't do it." Toward this end, they have recently begun to measure participant satisfaction with interviews and surveys.

Talbert House and Core Behavioral Health Centers, Parent-Subsidiary Profile

How can an organization ensure that it rides the next wave of policy changes and funding reductions instead of being overtaken by it? This question appears to have been on the mind of board and staff at Talbert House and Core Behavioral Health Centers in 1997 when they began to discuss forming some kind of partnership. Similar in mission but not in size, the organizations both had experience with mergers but were interested in a more flexible relationship that would leave the two organizations intact. They eventually formed a parent-subsidiary relationship that continues to evolve.

Background

With multiple service sites located throughout Greater Cincinnati, Talbert House provides services in the areas of mental health, community corrections, and substance abuse. In its 35 year history, Talbert's budget and range of services have grown dramatically, making it one of the major social service agencies in the city. Although increasing government grants and contracts are behind most of the growth, the merger with a small agency providing services in the area of sexual abuse in 1994 also contributed to Talbert's expansion.

A strategic planning process in 1995 led the Talbert board to conclude that, in order to attract the talent required to continue to win government contracts and to keep costs down, it should further expand. Thus the pursuit of mergers, collaborations, and alliances became part of Talbert's long-term plan. Toward this end, Talbert helped form a series of nonprofit coalitions in the Cincinnati area designed to benefit member agencies in a variety of ways, including the achievement of cost savings through group purchasing. Core Behavioral Health Centers led the formation of one of these coalitions, Gateway Behavioral Healthcare Network.

Mental Health Services West and Mental Health Services Northwest were established in 1973 in response to the federal community mental health center initiative. Facing financial difficulties, the two organizations merged in 1993 to form a larger, more financially sound organization called West by Northwest, Inc. In 1998 this merged organization changed its name to Core Behavioral Health Centers. Core offers a range of mental health services with a special focus on adults and families living in the western part of the county and on those with severe mental disabilities who have recently been discharged from inpatient programs.

By the mid-1990s, several Core board members believed that the next round of mergers would occur in the human services field. "We wanted to ally with the strongest organization and do it next to be ahead of the pack, so that we were in a position to choose our partner," recalls Stuart Schloss of the Core board. Additionally, Paul Guggenheim, Core's executive director, was concerned that the agency was too reliant on a few funders, and thought some sort of partnership could help to diversify the revenue base.

Emergence of Parent-Subsidiary Idea

One day in the fall, 1996, Neil Tilow, president of Talbert, set up a lunch date with Guggenheim, whom he had come to know through the Gateway Behavioral Healthcare Network, to discuss sharing a building on the west side of town. Although the deal fell through, the lunch was the first of several conversations about the potential benefits of working together to cut costs and improve services. In January 1997, a board member from each agency met to discuss possible partnership arrangements and ended by signing an agreement to explore a partnership. A joint committee comprised of management staff and two board members from each organization was formed, and its meetings were kept somewhat confidential.

Most of the concerns about a partnership came from the Core side. They worried that Talbert would swallow them up, and they would lose both their identity and their focus on the West-Side community. Talbert's main concern was the potential strain on Tilow and the other management staff. Talbert had grown more than three-fold in less than a decade, and although the board wanted to continue to stretch the leaders, it did not to want to break them.

Early in the discussions, the group developed a mission statement for the potential partnership: "To create a behavioral

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Talbert House and Core Behavioral Health Centers, Parent-Subsidiary Profile

Talbert House
Location:
Cincinnati, OH
Type:
Multipurpose mental health agency
Budget:
$24.7 million (1999)
Founding Year:
1965

Core Behavioral Health Centers
Location:
Cincinnati, OH
Type:
Multipurpose mental health agency
Budget:
$5.2 million (1999)
Founding Year:
1973

health entity for Hamilton County/Greater Cincinnati that would reduce cost and increase quality for all our clients, especially those on the west side of Hamlin County." Whenever they hit a rough spot or apparent impasse, they returned to the mission. "It got us through about ten tough decisions, and we didn't need a consultant," notes Tilow.

After considering and rejecting a full merger—because of concerns about losing Core's community orientation and its relationship with funders—Schloss and Julie Shifman, a member of Talbert's board, developed and proposed a parent-subsidiary structure. Under such a structure, Core was established as a membership organization with Talbert as its only member. As its member, Talbert board appointed the Core board with the understanding that for the first 5 years, current members would occupy a majority of board seats. In addition, three Core board members joined Talbert's board. Shifman stresses that, under the agreement, the Talbert board does not oversee any of Core's operations. "That's their board's responsibility."

Determining the structure and governance was easy, according to Shifman; the hard part was hammering out a management agreement. After much discussion, they determined that Core's executive director and five executive managers would work for Talbert and be contracted in part or in full back to Core. The current contract amounts to 10 percent of Core's budget, although the amount and percentages of staff time are negotiated on an annual basis. Under the agreement, Guggenheim reports to Tilow but only the Core board has the authority to fire him. A key aspect of the agreement was its duration. "We established a 5-year honeymoon to quell fears," says Schloss. "We wanted to be sure that it wasn't too easy to pull away but also allow for an exit strategy," adds Shifman.

Although the agreement spelled out the broad structure, there were, and continue to be, many details to work out. For example, the Core board did not want to cede control over their personnel policy to Talbert. After much negotiation, Tilow says he put his foot down: "I didn't think it could succeed if people were working side by side with different vacations, tuition reimbursement, etc. Such things represent the basic culture of an organization."

Implementation of Parent-Subsidiary

Tilow and Guggenheim met with both boards and staffs to explain the nature and limits of the partnership. When Tilow went to the county commissioners and representatives of Talbert and Core's major payer sources to tell them about the impending affiliation, he says that they almost applauded. Many of them, according to Tilow, felt that they were paying too many nonprofits too much for overhead expenses and brightened at the prospect of a partnership that might help the organizations to economize.

A series of memos explaining the affiliation and a couple of meetings with all of the employees of each organization followed an initial announcement to staff. Tilow and Guggenheim promised no layoffs and made it clear that their goal was not to reduce expenditures, but instead to increase the buying power of both agencies. "I wasn't surprised by the announcement," recalls Dottie Crosby, a supervisor for Core. "With competition and managed care, we needed to do it to stay alive and be more marketable."

After the affiliation became official in January 1998, it became clear that the organizations needed to integrate their financial systems under one financial director. Thus several Core administrative staff moved to Talbert in July 1999. Although this transition appears to have gone fairly well, consolidation on the program side has been much more difficult.

The leadership of the organizations felt that together they could offer programs more efficiently in the areas of adult mental health and case management services. They thus decided to integrate Talbert's Substance Abuse/Mental Illness (SA/MI) services with Core's Partial Hospitalization, Case Management, and Respite Care programs. A small group of case management supervisors from both organizations met every other week to integrate policies and procedures and consolidate supervision. These meetings were very contentious at first, according to Crosby. "There was tremendous resistance among SA/MI staff. They felt like they were being dismantled and didn't feel that Core brought anything to the table. It was hard not to get defensive." Crosby says that it was through sheer persistence that they gradually worked out one issue at a time. The consolidation of the programs resulted in the appointment of the Core clinical director (now a Talbert House employee) to oversee the integrated program. Some staff moved to new locations with new supervisors and, in some cases, staff from one organization is supervised by staff from the other.

Early on, the two organizations also looked at where all of their clients lived and found that their services overlapped in only one part of the city. In this neighborhood, they have created a "one-stop shop" where services of both organizations are located in the same building, making access to programs easier for clients and reducing overhead expenses. "We are also marketing a couple of our programs together, but mainly the partnership is invisible to our clients," says Guggenheim, "While we always include in our materials that we are an affiliate of Talbert House, we want to keep Core a separate marketable entity."

Several economies of scale have been realized since the inception of the parent-subsidiary structure. For example, the organizations saved $100,000 in the first year of the partnership by purchasing insurance together. Size has also had a psychological effect on the staff. Crosby says she feels more secure working within a larger entity, and feels there will be more opportunities to move up within the new structure.

Those involved in the affiliation hope that it will lead to new funding opportunities as well. "Our goal is to provide a full array of human services so that any payer source could contract with Talbert House and wouldn't have to go out to three or four organizations to fulfill all of their needs," explains Tilow. Tilow also hopes that the parent-subsidiary structure will placate concerns among other agencies about their expansion. "By maintaining brand names, we hoped to ease the fear that we were becoming the dominant player in town," says Tilow.

Some Core staff feel they have been bought out, and some Talbert staff feel that their organization has sold out, particularly in areas where they have incorporated Core programs and policies. Tilow feels that memos and meetings designed to address these concerns can only do so much to allay staff worries, and that "the proof is in the pudding." He believes that it is only when staff have seen concrete benefits, like increases in their pension and life insurance benefits, that their concerns will subside.

A year and a half after the Talbert-Core partnership began, Mental Health Services East also became a subsidiary of Talbert House. Like Core, Mental Health Services East is a community mental health agency originally established in response to the federal community mental health center initiative. Whereas the planning with Core took 14 months, this second affiliation drew on Talbert's experiences with Core and came together in just 6 months.

Future

Talbert has considered affiliation agreements with several other organizations that are interested in becoming subsidiaries of Talbert, and their interest, in Tilow's opinion, is an indication of the success of the partnership with Core. He stresses that the parent-subsidiary structure allows Talbert and its affiliates to make consolidations gradually, when opportunities come along. However, the end point of these gradual consolidations is not clear. Most of those interviewed thought that Talbert and Core will eventually merge, but Tilow feels that this is not a foregone conclusion, and that the flexibility that the current arrangement affords is a major benefit.

Lessons

- **Flexibility and time.** Most of the interviewees spoke about the importance of being open to making mistakes and of gradually molding the shape of the partnership over time. Guggenheim says that if he had it to do over again, he would have extended the planning period for the affiliation.
- **Mission focus.** The leadership of both organizations seems to have been able to put aside personal and institutional ego issues to pursue what they felt was in the best interest of the organizations and their clients. Tilow recognizes that Guggenheim probably made the most

Interviewed:

Dottie Crosby
Supervisor
Core Behavioral Health Centers

Paul A. Guggenheim
Executive Director
Core Behavioral Health Centers

Debbie Heston
Administrative Specialist
Talbert House

Stuart Schloss
Board Member
Core Behavioral Health Centers

Julie Shifman
Board Member
Talbert House

Neil Tilow
President
Talbert House

Waterville Area Boys and Girls Club and YMCA, Parent-Subsidiary Profile

Waterville Area Boys and Girls Club
Location:
Waterville, Maine
Type:
Youth development
Budget:
$560,000 (1996)
Founding Year:
1924

Waterville Area YMCA
Location:
Waterville, Maine
Type:
Youth, family, and community development
Budget:
$550,000 (1996)
Founding Year:
1957

significant sacrifice for his organization's mission. "My respect for Paul increased. He knew what he was giving up and decided he could live with that," says Tilow. Guggenheim feels one of the reasons the affiliation has worked is that Tilow has "let him run his own shop."

- **Stability of leadership.** Both boards felt more comfortable going ahead with the restructuring because they had veteran leaders at the helm. Indeed Tilow made a commitment to his board, Guggenheim, and the director of Mental Health Service East that he would stay on for an extended period as president.

Waterville Area Boys and Girls Club and YMCA, Parent-Subsidiary Profile

With money as their prime motivation, the Boys and Girls Club (the Club) and YMCA (the Y) of Waterville, Maine, showed up for a "shotgun wedding" one day in October 1996. In forming a parent-subsidiary structure that functions much like a merger, the board and staff of both organizations have faced the challenges of overcoming old grudges and of forming a partnership without the benefit of a "courtship."

Background

In the small town of Waterville, Maine, both the Y and the Club have long histories and enduring reputations. The Y, in some people's view, is a place for middle class families, and the Club a center for lower-income kids. By the mid-1990s, the Club had a board of directors, partially made up of alumni who remembered a time when they were not allowed in the Y. They also remembered when the Club approached the Y about merging in the early 1980s, and the Y rebuffed the offer because, they felt, the Y did not want to be associated with the "scruffy" Club.

Both the Y and the Club have had good and bad times throughout the last few decades. But perhaps no period matched the straits the Y entered in late 1986, when its fundraising consultant embezzled funds raised for refurbishing the facility and construction of a swimming pool. Shortly after this fiasco, the state shut down the facility due to asbestos concerns. Phil Krummel, who became executive director in 1987, was able to recover some ground by borrowing money to remove the asbestos and instituting a child care program and a Nautilus center to raise revenue. But the Y never quite recovered. Projections showed that even without debt they could not survive without the revenues a pool could produce. By 1996, the Y was approximately $700,000 in debt, and it was clear that the leadership had to make some serious decisions to keep the building open.

Ken Walsh came to Waterville in 1992 to direct the Boys and Girls Club, which was suffering from financial concerns, dilapidated facilities, and limited programming. In several years, Walsh helped to erase the Club's debt and increase its programming. His next step was to refurbish the facility. A feasibility study showed that the necessary interest and funds were in the community, so they started a capital campaign. Early on in this effort, Walsh met with Harold Alfond, the predominant local benefactor and former CEO of Dexter Shoe Company, who offered a fifty-fifty match if the Club raised $500,000.

Emergence of Parent-Subsidiary Idea

The Club reached its $2 million goal in 1995 and began plans for renovation, but Alfond advised them to hold off, saying it would be a waste of money to invest in their old building. He advised them to wait for a proposal from him for a different kind of project.

Around the same time, the Y board, faced with its mounting debts, decided to sell off some of their land and investigate options for sustaining their operations such as developing a "megafacility" with the Club and the city. They sent a letter to Alfond about this and other potential directions for the Y and conducted a survey through which they found overwhelming support in the community for a building housing the three groups. Alfond, who by now had been approached for capital funds from the Club, the Y, and the city, already had a shared facility in mind. Thus, in 1996, he invited the leaders of the three groups to a meeting in which he laid out specific terms and conditions for his support of such a facility. He offered a three-to-one match up to $1 million for the building. He also attached several conditions to the gift, including that the building be named "The Harold and Biddy Alfond Youth Recreation Center"; that a separate entity be established as the parent organization, which would be directed by Walsh and governed by a bridge board with representatives from each of the three boards; and that the Y erase its debt.

"Alfond made an offer they couldn't refuse," recalls James Hennigar, director of a local child welfare agency who became a consultant to the partnership, "and so ensued a shotgun wedding." With Alfond's conditions in mind, a steering committee was formed to figure out the rest.

Implementation of Parent-Subsidiary

Thus began the "storming stage" says Walsh. Hennigar introduced the idea that such efforts first have to go through the "storming" before "norming" sets in. The storming involved many brutal meetings among the groups, as well as behind-the-scenes discussions and strategizing. Much of the disagreement centered on programming issues. The Y wanted to maintain adult programs, including health and fitness services, while the Club valued its traditional exclusive focus on children. The Club board also felt it was easier to raise funds for disadvantaged children than for all types of families. Moreover, the local chamber of commerce threatened to publicly oppose the project because its members were worried that the nonprofit organization would unfairly compete with for-profit organizations offering health and fitness services in town.

Identity and autonomy were also hot issues. Representatives of the Y, the poorest and thus most vulnerable of the organizations, worried that the Y would lose its identity and that its programs would be watered down. Some Club representatives, feeling that the Y was moving in on their successful capital campaign, did not want to cede anything to the Y. And, like the Y, they worried about losing their identity in the restructuring. This concern hit home when the national Boys and Girls Club organization rejected a funding proposal from the Waterville Club because they were not perceived as primarily a Boys and Girls Club. Another hurdle was overcoming many of the Y board members' distrust of Walsh, Alfond's chosen leader of the parent agency. They felt he naturally would be more concerned about the Club than the Y, and it was not clear if there would be a role for a Y director in the new structure.

In addition to the official meetings of the steering committee, a lot was happening behind the scenes that was adding to the strife and confusion. Y board members contacted Y staff to find out "what was really going on." They also called Alfond's attorney, who had historical connections to the Y, hoping to influence Alfond to help preserve the Y's interests.

To address the confusion, Alfond set out further conditions of his support. He said that the governance of the parent agency should be based on the current assets of the three groups, thus squarely establishing the Club as the lead organization. He also specified that the primary focus of their work should be on children.

Those who could or would not live within the new structure began to select themselves out. The city pulled out of the effort when the mayor used funds from Alfond's foundation and from a bond issue and built a separate, outdoor pool.[15] Several board members also withdrew, and friendships collapsed under the pressure of negotiations. Additionally, as discussions continued, it became clear that the size of the combined budget did not warrant two directors. So, after selling off the Y building at a great price, Krummel went to work for another Y in a different community.

Alfond decided to send Hennigar into the "storm" to help the organizations come together and address lingering problems.[16] "They were so frustrated with fundraising for the new building that they were going at each other on smaller issues," recalls

[15] Though Alfond's contribution to the city was contingent on its participation in the new facility, he decided not to make an issue of the city's withdrawal.

[16] Alfond supported the child welfare agency Hennigar ran and admired Hennigar's management skills.

Interviewed:

Ken Eskelund
Board Member
Waterville Area Boys and Girls Club and YMCA

James Hennigar
Chief Executive Officer
Good Will-Hinckley

Chuck Karter
Assistant Director of Programs
Waterville Area Boys and Girls Club and YMCA

Phil Krummel
Executive Director
Bath Area Family YMCA
(former Executive Director of the Waterville YMCA)

David Lovejoy
Assistant Director of Operations
Waterville Area Boys and Girls Club and YMCA

Phillip Roy
Board Member
Waterville Area Boys and Girls Club and YMCA

Ken Walsh
Chief Executive Officer
Waterville Area Boys and Girls Club and YMCA

Hennigar. "This consolidated board had to form an alliance that was quite tricky. They had to figure out how the new organization would be governed, [how] to raise money for and build the new building, to merge the boards and create a new culture, and to maintain the individual identities of the two organizations to keep endowments and charters intact. And they had to do it without professional counsel or any experience with this type of thing, and they survived it."

Hennigar helped them reduce and consolidate the bridge board and finish the campaign. A nominating committee selected members, and a new slate of officers was chosen, including a former Y board member as chair. Hennigar also led a board retreat on governance processes and helped them to focus their decision making on a newly defined mission: to serve underprivileged kids, all kids, and families, in that order of priority.

Although Hennigar helped to clear the air, some problems remained such as the issue of signage. The board spent five months discussing the size of the letters of each organization's name on the sign outside the building. Although they ultimately decided to have the Club's name in larger letters, Walsh has held off hanging the sign, fearing it will stir up tensions.

Parent-Subsidiary in Action

In August 1999, the two organizations signed an affiliation agreement, and the resulting structure looks and runs much like a merged organization. All staff work for the parent organization, originally called the Maine Youth Alliance but now mostly referred to as Waterville Area Boys and Girls Club and YMCA. The boards of the two organizations meet on an annual basis. The new building, which opened in May 1999, has created a lot of excitement in the community, and many of the tensions are beginning to fade. As Hennigar notes, "Once the baby is born, everyone focuses on it and forgets the pains of childbirth." However, although things clearly are settling down, it is not clear to everyone what they are settling into. There is confusion in the community and even among the staff as to what the organization is and what it is called. And indeed, the absence of a sign adds to the confusion.

The restructured organization has benefited from the strengths of both partners. The Club brought a rich history, solid mission, strong fundraising board, and dedicated donors. The Y brought a variety of strong programs including several that bring in revenues through fees and the former Y camp called Camp Tracy. Perhaps most important, both organizations had Alfond's support. Both organizations also brought liabilities to the table. Walsh admits that one of the Club's biggest liabilities was excessive pride. "Many of us were like Notre Dame fans, making it difficult to cooperate with an organization we formerly perceived as a competitor." The Y brought to the table its debt and its reputation in the wake of its failed 1980s campaign.

Hennigar feels that their fundraising capacity has improved since the restructuring because they are able to market to the different constituencies of both organizations. Walsh reports that they are serving many more young people than the two organizations served prior to the partnership. The restructuring has also imposed costs, according to some. Karter feels that the Y functions as the "kid sister" in the new structure, and that it's "more of a parentship than a partnership." He feels the new mission essentially reflects that mission of the Club and that much of the Y's former programming focused on adults and families has been lost. Roy agrees that, in the process of compromising, they lost some of the best that each organization had to offer.

Future

The next step will be strategic planning among the staff and board to develop a roadmap for the future. Walsh expects to maintain the 501(c)(3) status of both founding organizations, but only to maintain their endowments. They hope to house a local senior center in the future, and to build more space for gymnastics. They are also looking into renovating the Y's Camp Tracy Krummel feels that the effort has succeeded beyond either organization's hopes, and thinks that eventually it will be driven by the needs of the community more than by the past.

Lessons

- **The value of courting.** Walsh feels that Alfond pushed the effort forward because he wanted to see it completed in his lifetime and because he had only the experience of business mergers, which can happen more quickly. "Community-based organizations must get a lot of buy-in from board, staff, and community to make something like this work, and that takes time," maintains Walsh.

- **Priority setting.** Roy feels that early priority setting also might have facilitated the process. "We were so busy campaigning that we never sat down to try to understand the differences in our missions. We cut slack on the mission work to preserve harmony, but in the long term it just exacerbated things. We should have decided when to put emphasis on the process and when to put it on the issues."

Child and Family ProFile, Inc., Joint Venture ProFile

They could not do it alone. Uhlich Children's Home initiated Child and Family ProFile, Inc.—a joint venture to develop and service client tracking software—with other child welfare agencies after several attempts at operating the business on their own. In its short lifetime, ProFile has experienced both the benefits and challenges of competitors working together, and those who have helped to launch it are hopeful and cautious as they tread new ground.

Background

In the early 1990s, Uhlich Children's Home, which provided residential and foster care services to seventy-five children, relied on paper files for keeping track of information on each child and his or her family. Zachary Schrantz, executive vice president and chief financial officer, recalls that answering a simple question about their caseload would require hours of rummaging through files. So Schrantz and another young staff member, Tim Whalen, began to develop a computerized database. After their first attempt failed, they looked around to see what types of databases were on the market. Not finding much that was compatible with Microsoft Windows, they tried again to create their own, and this time it worked.

Uhlich's primary motivation in developing the software, according to Schrantz, was to operate their growing programs more efficiently. Organizations similar to Uhlich shared this concern and were also mindful of the interests of their public funders. During the 1990s, the Illinois Department for Children and Families Services (DCFS), the primary funder of child welfare agencies in Illinois, asked agencies for more information on their clients. Those without databases found it increasingly difficult to do this. In considering their options, many local child welfare organizations came to look at Uhlich's system.

Uhlich began exploring whether and how they could share the system with others. "We tried a few times to give it away. But it didn't work," recalls Schrantz, "It was full of Uhlich idiosyncrasies. It needed to be reconfigured to be more generic. Plus we had no mechanisms to train other users, update the software for them, and provide ongoing support." So they hired a consultant to help them decide how to proceed. Their first idea was to develop and manage the software at Uhlich with start-up capital from potential users. However, only one agency was interested in making such an investment. George Thibeault, associate division manager of the Foster Care Division at Catholic Charities, recalls that his organization declined to become an investor at this point because "we thought it needed to be separate . . . if it were a Uhlich effort, it would always focus on Uhlich's needs."

Uhlich next tried to raise sufficient revenues simply by selling the software to other organizations. They hired Tim Whalen to make the software marketable to other agencies, and from 1996 to early 1998, sold the program to over thirty organizations in the Chicago area. They also formed a users group in which agencies could share problems with the Uhlich staff and learn how to use the software effectively.

They found a market for the software. Catholic Charities, for example, had tried to develop its own software 4 years before Uhlich but, according to Thibeault, were too early. "Technology wasn't advanced enough, and it was very expensive. We were not prepared to invest the money needed to make it work, so it bombed." Catholic Charities then looked at programs developed by for-profit companies and another developed by a Catholic agency in Rockford, but Uhlich's came closest to meeting their needs.

Child and Family ProFile, Inc., Joint Venture ProFile

Uhlich Children's Home
Location: Chicago, Illinois
Type: Human Service, Multipurpose
Budget: $29 million (2000)
Founding Year: 1869

The Catholic Charities
Location: Chicago, Illinois
Type: Human Service, Multipurpose
Budget: $162 million (1999)
Founding Year: 1917

LifeLink Corporation
Location: Bensonville, Illinois
Type: Human Service, Multipurpose
Budget: $61 million (2000)
Founding Year: 1895

Chicago Commons
Location: Chicago, Illinois
Type: Human Service, Multipurpose
Budget: $22 million (1999)
Founding Year: 1894

Ada S. McKinley
Location: Chicago, Illinois
Type: Human Service, Multipurpose
Budget: $39 million (1999)
Founding Year: 1919

Although Uhlich had a marketable product, their business venture struggled. "We over-promised, undercharged, and didn't know how to support it. We didn't know how to act like a software company," admits Tom Vanden Berk, president and executive director of Uhlich. Uhlich lost over $400,000 on the effort. Schrantz adds "It was hard for us to focus on Uhlich and ProFile. Each had a different set of customer service needs and expectations."

Emergence of Joint Venture Idea

In 1998, Whalen, who was the driving force behind the marketing of ProFile, left Uhlich. Due to this loss and the difficulties it had faced over the prior 2 years, Uhlich came to the conclusion that it lacked the capacity to go it alone, and began to look for a company that knew the software business that might partner with them. They quickly zoned in on Metamor Global Solutions because Metamor had experience working with child welfare organizations. Together, Uhlich and Metamor began to develop a series of business plans and financial projections. Ultimately, Metamor did not see enough profit in the venture due to the limited resources of potential customers, but Uhlich gained a better understanding of the software business.

Around the same time, Uhlich began working with the Child Welfare League of America to assess how marketable ProFile might be among child welfare agencies around the country. Because the League's research suggested that the product would be of value to other organizations, even if it would not be an income generator for Uhlich, Uhlich tried yet another tack. They went back to the idea of raising capital through user-investors, but this time they established ProFile as a separate nonprofit corporation that would proceed along the same lines spelled out in the business plan developed with Metamor. Based on their prior experience, they knew they needed the assistance of a software company, if not as a partner, then as a contractor. They looked around, but not surprisingly, chose to contract with Metamor because they were already involved and had demonstrated a strong knowledge in information systems and business planning.

In February 1999, Uhlich presented a business plan to the thirty agencies that had purchased ProFile and offered three ways to "invest" in the joint venture. The first option was to pay $25,000 to be a "shareholder" and to sit on the board of ProFile. Five of the largest customers chose to become this type of "Class A" investor. Three agencies chose to be Class B investors. They paid $12,500 and will receive discounts on future products and have some influence on the development of the software, although not as much as those on the board. Other organizations that wanted to continue to use ProFile signed service agreements and paid $11,000, five times the amount Uhlich originally charged.

Schrantz was pleased with the response of the group. The agencies that had been using ProFile clearly saw its value and wanted to continue using it. Moreover, their alternatives were more costly than an investment in ProFile. Catholic Charities, for example, would have had to spend about $300,000 to develop another system. Agencies that had purchased ProFile but not used it were less forthcoming, and several declined to invest.

The support of Catholic Charities and the other large agencies was critical not only for the capital it provided but also for the credibility ProFile needed to survive. Describing their decision to invest in ProFile, Thibeault jokes, "The 800 pound gorilla came to dinner. When we signed on, we intended to help to make it successful. Our commitment was more valuable than the money we invested."

Implementation of Joint Venture

ProFile received 501(c)(3) status in July of 1999. The new board created bylaws and hired Dan Kotowski to be the chief executive officer. The next step was to negotiate the contract with Metamor. That process took 3 months, longer than expected, because the board wanted to ensure that they made the best deal. Through the contract, Metamor provides four staff members (only the executive director is hired by the board). Thibeault has been pleased with the Metamor staff thus far. "They don't act like hired guns. They are all very dedicated to ProFile's mission."

Although the board and staff of ProFile speak about the joint venture as a business, they also note that being incorporated as a nonprofit has some important advantages. They are able to receive grants and donations to help with the start-up costs, and they do not need a profit margin to be viable. Moreover, they can reinvest all of their income into the product. They feel that ProFile is competitive in a market dominated by for-profit companies that have more resources and slicker-looking products because they offer software at a significantly lower price than their competitors, and software that is specifically tailored to the needs of child welfare agencies.

Joint Venture in Action

The ProFile staff is setting up their new office, establishing work procedures, and focusing on the satisfaction of current users. "Our goal is to have twenty-four customers by the end of the year," notes Kotowski, "And it looks like we will reach it."

Although most of the potential partners decided fairly quickly that it was more economical to invest in ProFile than to purchase software from a for-profit company or develop their own, they were also suspicious of Uhlich's motives in proposing the partnership. Some partners were worried that Uhlich's primary interest was in finding a way to pay off their debt. Their agreement with their partners stipulates that after ProFile reaches $1 million in revenues, Uhlich will receive 10 percent of revenues annually until it pays off its debt. Thibeault notes that, "For all of the considerable vision and collaborative orientation of Uhlich, the program was still designed to meet Uhlich's needs, and we are a much bigger agency with different needs."

The transition from owning ProFile to sharing it has also been difficult for Uhlich. Schrantz reports that it was difficult for them "to let go of their baby, to let go of control and admit and recognize that we couldn't do it alone." However, while it was a cost to the organization's ego, Vanden Berk and Schrantz also express excitement at the possibility of seeing ProFile thrive and expand.

In the short time since ProFile opened for business, one of the biggest challenges has been setting policies for dealing with competing development concerns. Each partner organization has its preferences about what types of data it would like to collect and how it would like the data stored and presented. To address this concern, the ProFile board is finalizing a development protocol. Under the new policy, there will be the possibility of "shared ownership development." This policy grew out of a recent challenge to the partnership. Catholic Charities developed an idea for a new screen but wanted to maintain exclusive control over the development of the new component. "If we pay for it ourselves, we are totally in control, and it's designed to meet our needs the way our needs are conceived," recounts Thibeault. After much discussion and negotiation, Catholic Charities offered ProFile one fourth of the cost of development and the ownership rights in exchange for fast-track development with less input from the users group during the initial design phase, although the screen was sent to all users to test and provide feedback to ProFile. This agreement provided a model of how to handle the development of new modules that are conceived by one user but would benefit other users.

Future

ProFile hopes to have fifty-six customers in 3 years, an ambitious goal according to Schrantz. The staff and board of ProFile feel that its long-term viability depends on expansion. They plan to eventually widen their target market to small and mid-sized child welfare agencies outside of Illinois, as well as other types of human service organizations with client tracking needs. "As state agencies focus on community-based, coordinated human services, child welfare agencies will begin to offer more than just foster care placement and other traditional child welfare services, so ProFile will need to be able to accommodate their needs, " predicts Vanden Berk.

Lessons

- **Partnership orientation.** The Uhlich staff seemed to know that to make the partnership work they would have to give up their sense of ownership. Moreover, there is a general sense among all of the partners that the changing environment necessitates alliances, even with competitors. Thibeault explains that managed care has increased competition among agencies. "It's a rather unique situation. Here are true competitors coming

Interviewed:

Steve Garcia
Program Director of
Information Systems
The Catholic Charities

Dan Kotowski
Chief Executive Officer
Child & Family ProFile

Zachary Schrantz
Executive Vice President,
Chief Financial Officer
Uhlich Children's Home

George Thibeault
Associate Division Manager,
Foster Care Division of
Non-Residential Services
for Children and Youth
The Catholic Charities

Tom Vanden Berk
President and Executive
Director
Uhlich Children's Home

YMCA of the Pikes Peak Region, Merger Profile

United Services Organization of the Pikes Peak Region, Inc.
Location:
Colorado Springs, Colorado
Type:
Human Services
Budget:
$166,000 (1997-98)
Founding Year:
1941

Young Men's Christian Association of the Pikes Peak Region
Location:
Colorado Springs, Colorado
Type:
Human Services
Budget:
$7.3 million (1997-98)
Founding Year:
1878

together to help all of the people who own it be the ones who survive in a shrinking market."

- **Invested board.** Each member of ProFile's board is committed to making it work since their agencies have not only invested financially, but also depend on the system.
- **The right players.** The largest child welfare agencies in the Chicago area were among the first investors in ProFile. Their resources and confidence in the product have provided a strong foundation on which to establish the joint venture.

YMCA of the Pikes Peak Region, Merger Profile

Sometimes a merger appears as the next logical step. Although the consolidation of the YMCA of the Pikes Peak Region and the USO of the Pikes Peak Region, Inc. was not without its challenges, the long relationship between the two national organizations, as well as between the local affiliates, made both the decision to merge and the process of merging relatively easy.

Background

The YMCA has been involved with the United States military since before the Civil War, and in 1941 the YMCA joined five other national voluntary organizations to create the United Service Organizations for National Defense, or USO. Since World War II, the USO has provided a variety of services to U.S. military members around the world. During the war, the YMCA operated 25 percent of the 464 agency-designated USO centers in the United States. Following the disestablishment of the USO in 1947, the YMCA Armed Services Department assumed responsibility for the USO centers, and when the USO was reactivated during the Korean War, the YMCA again became the USO's major operating agency.

"With the advent of the all-volunteer military in the 1970s, the local USO changed its focus to the needs of the whole family unit," according to Ted Rinebarger, executive director of the Southeast YMCA/USO, a branch of the YMCA of the Pikes Peak Region. "Programs were specifically designed to meet the needs of a young enlisted force, a high percentage of whom are married with families." And, like many other chapters, the Pikes Peak, Colorado, chapter of the USO often collaborated with the local YMCA.

Emergence of Merger Idea

By 1995, the relationship between the local YMCA and USO was quite close, and the organizations were sharing virtually all administrative functions such as bookkeeping, payroll, marketing, benefits plans and building maintenance as well as office space. According to Bob Sheets, former USO board chair, the two groups at this point said to themselves "We're always telling everyone that we work as one, and if we're saying that, we should do just that: be one." So, under the leadership of Merv Bennett, YMCA president and CEO, and Sheets, the two organizations began to assess whether a merger made sense at that time. The USO recommended that Rinebarger develop a report for the two organizations' boards that provided an assessment of the current YMCA/USO partnership and a series of recommendations about the pros and cons of increased integration. Rinebarger outlined what he saw as the potential benefits of increased integration, including reduced "brand confusion" among community members who could not distinguish between the two organizations, increased fundraising opportunities, additional cross-utilization of resources, and certain economies of scale. Although he did not specifically recommend a merger, he did advise the organizations to pursue some type of increased integration, and to further explore the costs and benefits of such a move with the organizations' stakeholders.

After reviewing Rinebarger's report, the two boards decided to explore a merger. Although many of the board members were in favor of the idea, significant opposition came from several USO board members. Some feared that the merged entity would not maintain the USO vision or execute the USO programs as well as the USO could on its own. However, the USO had had a difficult year financially, and the staff and board were feeling some pressure. Projections for future years seemed to indicate that they would be facing continued financial challenges, and they recognized an economic benefit to merging.

The USO's financial problems stemmed in part from the fact that as its focus had shifted from single enlisted men in combat to peacetime military members and their families, the organization had come to look a lot like the YMCA. This personality overlap, in combination with the organizations' extensive partnering, caused brand confusion. Community members often could not tell the difference between the organizations, or whether a service was being provided by one or the other. Additionally, the local USO's mission to serve young military families in its community had significantly diverged from the mission of the national USO organization which was still focused on providing services to single soldiers stationed overseas. This difference provided further impetus for consideration of a merger with the YMCA which better reflected the local USO's concerns.

The USO's military connections and military focus were appealing to members of both the board and staff at the YMCA, particularly those like Bennett and Susan Plank, senior vice president at the YMCA, who felt that the YMCA may have inadvertently neglected the military population. The skills, experience, and expertise the USO had in serving military members and their families were missing from the menu of services offered by the YMCA. This opportunity to better accomplish its mission of serving the whole community—roughly 25 percent of which were military members or their families—motivated the YMCA to merge with the USO.

Another incentive to merge came from a survey of community needs conducted by the Springs Community Improvement Program (SCIP) of the city of Colorado Springs. Most residents who responded to the survey indicated that they would like more social services in the Southeast quadrant of town, the highest-crime area and the most ethnically and racially diverse community in the city. This area is also home to most of the enlisted men and women associated with Fort Carson, an Army base that typically has more socially and economically disadvantaged recruits than the other four military installations in town. After reviewing the survey findings and talking with the leadership of both the YMCA and the USO, the city agreed to build a family-service facility in the Southeast, provided that the YMCA ran its programs there. To serve this community, the YMCA needed to focus on the needs of military families, so it seemed like the right time to integrate the USO's military-focussed services as part of its offerings. "It was as if the stars had lined up single-file and pointed at these two groups," says Ron Romero, a local government official and supporter of the effort.

The two boards decided to negotiate the terms of the merger themselves, without counsel, and the executive committees and executive directors proceeded to meet monthly for six months to identify and work through all of the issues and potential obstacles to the merger. There were two issues that proved to be particularly challenging to the negotiating group. The first was the survival of the USO's mission. To address this, the group decided to include a statement in the final agreement that formalized the YMCA's commitment to continuing the mission and focus of the USO. A subsequent decision to affiliate with the Armed Services YMCA of the USA has also helped maintain a focus on the military mission. The negotiating group faced another challenge with the World USO Council. When informed of the organizations' plans to merge, the council stated that the money kept in the local USO's reserve fund should go to the World USO upon dissolution, as those funds had been raised specifically to serve military members. After a long series of discussions, the YMCA suggested that it place those dollars in an endowment earmarked for services to military populations in Colorado Springs. The World USO conceded, and the negotiations were able to move forward.

In July of 1999, almost three years after the Rinebarger assessment and after eight months of exploration and negotiation, the board of the USO of the Pikes Peak Region, Inc. unanimously voted to rescind its 501(c)(3) exemption and its affiliation with the USO World Council, and to merge with the YMCA of the Pikes Peak Region. The YMCA board also voted in favor of the merger, and it was agreed that the USO would dissolve into the YMCA. The YMCA, as the legally surviving corporation, affirmed its commitment to carrying out the mission and programs of the USO.

Interviewed:

Merv Bennett
President/CEO
YMCA of the Pikes Peak Region

Ann Lang
Chief Operating Officer
United Way of Colorado Springs

Mike Matthews
Board Chair
YMCA of the Pikes Peak Region

Barbara Nelson,
Associate Executive Director
Southeast YMCA/USO

Susan Plank
Senior Vice President
YMCA of the Pikes Peak Region

Ted Rinebarger
Executive Director
Southeast YMCA/USO

Ronald Romero
Board Vice Chair
YMCA of the Pikes Peak Region

Robert Sheets
Board Chair
Southeast YMCA/USO

Martin Smith,
Vice President for Financial Management
YMCA of the Pikes Peak Region

Janell Stewart-Klein
Board Vice-Chair
Southeast YMCA/USO

Angie Williams
Youth Development Director
Southeast YMCA/USO

Implementation of the Merger

The high level of trust that had developed over the years between the two organizations facilitated the merger process. For example, there was little contention regarding leadership roles following the merger. Because Bennett, the YMCA CEO, had worked extensively with Ted Rinebarger, USO executive director, they had a solid relationship and a high level of trust in each other. By the time the merger agreement was signed, Rinebarger was happy to direct the new Southeast facility and Bennett to remain the YMCA CEO. Several of the USO board members wished to remain involved in the merged entity after the process was complete, and joined the advisory board of the new Southeast facility. With regard to staffing, projections had shown that the merged organization would see immediate growth in services, and that additional staff would need to be hired once the merger took effect. This was in fact the case, and thus the issue of job loss never surfaced as a concern.

The merger brought increased programming to the Colorado Springs community; not only were all USO programs maintained as part of the merger agreement, but all USO services were made available in all of the YMCA facilities throughout Colorado Springs. Communicating this to the public was a priority for both organizations. The USO put a great deal of energy into explaining to its supporters that the organization's functions and services were not going away due to the merger, but would in fact be enhanced.

Merged Organization In Action

Although many members of the staff and volunteers feel a part of the new entity, there is still some residual "us and them" thinking, particularly among some of the members of the Southeast facility's advisory board. "It's been a challenging transition for both staffs to get used to the idea that they are now one staff," says Susan Plank, who supervises all YMCA branch managers in the city as vice president of operations. Staff are encouraged to talk about such things openly, according to Rinebarger, and he feels that this openness has helped the integration efforts a great deal.

The elimination of brand confusion has resulted in easier and more effective fundraising. The merger has opened doors to a larger pool of donors, including both military and non-military individuals who wish to support the combination of YMCA and USO programs.

Future

When asked about the future of the YMCA/ USO merger, Mike Matthews, board chair of the Metropolitan YMCA, states that "The new entity will grow its programs in the years ahead, and the new Southeast facility will serve a community in great need of services. There is no doubt in everyone's mind that a merger was the best form of partnership that these two organizations could have pursued."

Lessons

- **Established relationships.** The long history of partnership between the YMCA and the USO on the national level as well as in the Pikes Peak region set the stage for the merger. The trusting relationships formed between the staffs through prior partnerships eased the transition for many involved.
- **Faster transition.** Most respondents agreed that if they were to do this over again, they would have limited the transition process to less than eight months. Barb Nelson, former USO program director and current associate executive director at the Southeast facility, says that "Letting too much time go by in between meetings and negotiations can cause a merger's momentum to slow down, causing people to find excuses for not following through with group decisions."

Alliance for Community Care, Merger Profile

Three mental health organizations in California shared some common concerns in 1989. Each had to adapt to new managed care polices that were replacing fee-for-service contracting with both the county and state governments. Moreover, larger organizations appeared to be more competitive in the managed care environment, because both the county and state had expressed a preference for contracting with organizations that offered a wide range of mental health services and had the capacity to track the outcomes of their efforts. Thus the three organizations began to consider integrating some portion of their programming and operations. Although their original goals were financial, the negotiations and planning revealed other possible benefits. "We began this process thinking about survival, and believing that we were too small to compete," recalls Mary Hiland, who eventually became the chief executive officer of the merged organization. "Then our thinking evolved into: 'we want to thrive, attract new business, and lead'."

Background

Community Companions, Avenues to Mental Health, and Miramonte Mental Health Services were mental health organizations serving similar populations in Northern California in the early 1990s. Community Companions was known specifically for its practice of visiting clients personally, providing services and outreach where they lived. Avenues served similar clients, but focused on providing services in urban areas as well as providing specialized beds for clients in crisis and was respected for its well-developed administrative infrastructure and set of policies and procedures. Miramonte was distinguished by its service area, North Santa Clara County, and in particular Palo Alto and the surrounding communities. One of Miramonte's strengths was its diverse array of funding sources.

Prior to the 1990s, partnerships between these agencies had involved sharing information, coordination of programs, and occasional collaboration on community events. As managed care became more of an issue, however, these organizations joined others in looking for ways to better adapt to and thrive in the changing environment.

Emergence of Merger Idea

The Association of Mental Health Contractors, formed over 20 years ago, is a group of chief executive officers of eighteen mental health providers in Santa Clara County, California, that provides a means by which directors consult with each other and jointly plan for the future. By January 1995, sixteen of these organizations had worked together to develop a plan for a partnership resembling a management service organization structure (MSO).[17] Four of the organizations—Miramonte Mental Health Services, Community Companions, Avenues to Mental Health, and Eastfield Ming Quong—thought the plan was too expensive to be feasible, withdrew from the planning process, and began to talk with each other about other ways of working together. The four organizations had similar missions, and knew of each other's programs and strengths. All four felt that collaborating would be the key to thriving in the health care environment of the future, and believed that in order to attract funds in that environment, organizations would have to work more closely together. With such strategic motivations in mind, the organizations began to meet in January of 1995 to discuss how they could address the duplication in the services they provided through some type of integration, not necessarily a merger.

After meeting for six months on their own, the organizations decided to hire a consultant to help them with the planning process. The consultant helped them to focus on function rather than form. Through a "visioning" process, they were able to agree on a common mission that helped them to then consider what form they might want the partnership to take. Hiland recalls that their initial discussion about the technicalities of the structure of the integration bred fear among the participants and stalled their process. "The most crucial moment in the weekly meetings was when we decided that our vision for partnering had to be about more than our individual interests—it had to be about the clients," stresses Hiland.

After six months, the group then hired a consultant specializing in healthcare to help them develop a report on the feasibility of an integration similar to a parent-subsidiary structure.[18] In February of 1996, the report was presented to the boards and executive

Alliance for Community Care, Merger Profile

Community Companions
Location:
San Jose, CA
Type:
Mental Health Organization
Budget:
$5.5 million (1995–96)
Founding Year:
1975

Miramonte Mental Health Services
Location:
Palo Alto, CA
Type:
Human Services
Budget:
$2.5 million (1996)
Founding Year:
1962

Avenues to Mental Health
Location:
San Jose, CA
Type:
Human Services
Budget:
$9 million (1996)
Founding Year:
1952

[17] For more on management service organizations (MSOs), see page 12. For profiles of MSO, see pages 31 and 34.

[18] For more on parent-subsidiary structures, see page 12. for profiles of parent-subsidiary structures, see pages 37 and 40.

staff of the four organizations. The Eastfield board and staff decided to withdraw from the partnership because their mission was specific to children while the rest of the agencies focused on all populations.

The steering committee made up of representatives of the three remaining agencies continued to meet and their discussions quickly began to focus on the costs and benefits of a full merger. Everyone agreed that they wanted to create an organization that was strong enough to withstand the advances of any larger health care providers or for-profit entities that might want to move in and "take over." The most important concern among the members of the group was the possibility that the mission of one or more of the parties might be lost in the new entity. For example, Margaret Raffin, then a board member for Miramonte and a current supporter of Alliance, reports that, "Miramonte's board hesitated in our decision to merge because Miramonte had a distinct identity in Palo Alto, and it could lose that identity."

Because the merger promised to help all of the organizations compete more effectively, the board decided that this lingering uncertainty should not prevent them from moving forward. Moreover, members of the group agreed that consolidating their operations and their programs made the most sense as a way to improve client services. Indeed, the benefits to their clients promised to be so significant that Glen Robertson, the Avenues chief executive officer, felt convinced that "It would be immoral not to do it." They asked the health care consultants to revise their report so that it focused on a merger of the three organizations that would preserve the priorities of the original organizations. In March of 1996, the three boards voted to merge the agencies.

The next step was to form a consolidation committee to begin formal negotiations. Each board elected two people to this consolidation committee, with the understanding that those two representatives would eventually become members of the new board. At the urging of Hiland, the group invited Permanent Housing, an organization with which Community Companions was negotiating a separate merger, to contribute one member to the committee as well.

The consolidation committee met for the first time in May 1996, and continued to meet through June to negotiate as many merger-related issues as possible. One of the first tasks of the committee was to name an executive director for the merged entity. The committee decided that the search would be internal, and hired a search consultant to help with the decision process. The consultant acted as an advisor to the hiring committee, which comprised both staff and board members. In the meantime, the governing boards of the three entities agreed that the current executives of the three parties would form an executive transition team.

At the end of the search process, Hiland was selected. Some people were surprised at the choice, as she had the least amount of executive experience among the directors being considered. However, consensus among staff was that she was the right choice for the job; she had worked with Community Companions for 20 years, and was known to be committed to the mission of her organization. Although the initial surprise led to a short period of awkwardness after her selection, support was quickly forthcoming. Hiland accepted the position. Other positions or severance packages were offered to the other directors, which included incentives for them to stay during the transition process. Lynn Farr, former Miramonte chief executive officer, accepted the director of clinical services position. She served in that position for almost a year before being replaced by Vonza Thompson, the former director of clinical services for Avenues. Glen Robertson, former Avenues chief executive officer, decided to retire.

Implementation of the Merger

The consolidation committee decided that the name of the merged entity would be Alliance for Community Care, and that its mission would be "to help individuals achieve mental and emotional health, discover and reach their potential, and fully participate in life." Alliance for Community Care began operations in January, 1997. The staffs had been convened regularly throughout the process in an effort to keep them apprised of what was going on, and thus were not surprised at the outcome of the discussions. The county, the main contractor for all three organizations, had also been updated throughout the process, and was very supportive of the merger.

The merger took a toll at the staff level, although layoffs were limited. The executive directors and about fourteen other management positions were eliminated and others redesigned. Some new positions were created. The message sent to both administrative and program staff was that the goal of the merger was not to reduce the number of employees, and that if people were willing to work and be flexible with regard to exact job descriptions, there would be a position for them in the new entity. Although no one below management level was let go as a result of the merger, some people did choose to leave.

Unfortunately, not all staff felt equally informed and included throughout the integration process. Several of those interviewed intimated that the former Permanent Housing staff, in particular, felt like stepchildren throughout this process. A 1998 strategic plan included an employee satisfaction survey that found that 76 percent of respondents felt that trust was an issue in integrating culturally.

In an effort to help staff members become better acquainted with each other, the administration organized a series of gatherings known as "discovery meetings." The goal of these meetings was to bring staff members who worked for similar programs throughout the newly forming entity together. For example, a group of staff members from a vocational program met with another group of staff members from a different vocational program, and attempted to get to know each other in a low-pressure, non-task-oriented environment. Unfortunately, the staff did not yet feel ready to engage in that type of activity. Participants were more concerned about what changes were going to take place in their organizations and programs, and wanted more task-oriented discussions. Thus there was a mismatch between the administration's goal in convening the meetings and the interests of those attending. After a few meetings, Lynn Farr, then the clinical director, discontinued the practice. Hiland says that the integration of staff and cultures has been slow, and that there is still more work to be done. She believes that rather than forcing cultures and people to integrate, organizations should let this happen more naturally. She has found that over time staff have been coming together on their own, through the standard staff and program meetings.

Merged Organization In Action

After the merger, most key senior staff moved to a central office in San Jose. Some other staff also moved in accordance with shifting of responsibilities. All facilities were maintained. Many of the administrative systems have now been fully integrated, including management information systems, payroll, financial management, fundraising, and personnel policies. There is still work to be done, however. Efforts to integrate client contact reporting procedures, as well as some of the clinical supervision policies and procedures, are still in process.

During the first year of integration, a union was formed. Nikki Winovich, former Training Coordinator with Community Companions and now a consultant for Alliance, feels that "The union organizing process filled a void created by the lack of cultural integration. It made people feel a sense of unity and empowerment." Some believed that the union organizing process was disruptive to client services. However, others saw it as the only way to secure competitive salary and benefit packages, and felt that it was beneficial. Unionization also addressed staff concerns that working for a larger organization would mean that staff had less influence over that organization; a union guaranteed such influence.

Alliance offers services at over thirteen sites across Santa Clara County. All services that were formerly offered by the individual entities continue to be offered by Alliance. Together, Alliance's programs provide services for every stage of a person's life, and clients in one program can easily gain access to other services throughout Alliance. According to Hiland, the merger has allowed the organizations to attract as much as 24 percent more revenue primarily from mental health contracts.

Alliance has also become stronger in relation to other entities vying for the same public dollars. For example, the County has had contracting relationships with the various mental health organizations in the area, and has typically set the agenda regarding contracting levels and arrangements. Mental health county administrators and policy mak-

Interviewed:

Marge Chavis
Crisis Residential Team Leader
Alliance for Community Care

Patricia Espinoza
Human Resources Administrative Assistant
Alliance for Community Care

Mary Hiland
Chief Executive Officer
Alliance for Community Care

Beth Johns
Assistant Program Manager for Vocational Services
Alliance for Community Care

Linda Jordan
Director of Residential Services
Alliance for Community Care

Jerry McCann
Director of Vocational Services
Alliance for Community Care

Janna Mitchell
Day Treatment Program Facilitator
Alliance for Community Care

Nancy Nisco-Clark
Personnel Director
Alliance for Community Care

Margaret Raffin
Former Board Member
Miramonte Mental Health Services

Glen Robertson
Former Chief Executive Officer
Avenues to Mental Health

(interviews continued, next page)

Sharon Roth
Former Board Member
Permanent Housing

Karen Sullivan
Program Manager
Alliance for Community Care

Paul Taylor
Director of Community Services
Alliance for Community Care

Vonza Thompson
Director of Clinical Services
Alliance for Community Care

Nikki Winovich
Human Resources Training Coordinator
Alliance for Community Care

Dan Woodward
Board Member
Community Companions

ers now include Alliance in the process of setting the agenda, and request their input more often and on a greater variety of issues.

The merged organization has also benefited from a richer mix of skills provided by the middle managers of the original organizations, according to Raffin. Marge Chavis, former member of the program staff at Avenues and now crisis residential team leader at Alliance, adds that the larger organization provides more opportunities for staff "to move up, or horizontally."

Future

Jerry McCann, former employment program staff at Community Companions and now director of Vocational Services at Alliance, states that future plans for the organization include ". . . moving away from public funding, decreasing bureaucracy at Alliance, and diversifying our funding sources." Alliance also faces the challenge of maintaining the level of community responsiveness each of the partners maintained before the merger, while at the same time growing into a larger entity. The question of how large is too large is likely to face Alliance, according to Paul Taylor, the former clinical director at Miramonte and current director of community services at Alliance.

Lessons

- **Clear and consistent communication with staff.** Beth Johns maintains that, "If I were to do this again, I would want someone to sit with me and tell me how things will change, explain new roles and expectations, and be more explicit about all the possibilities." Communication is an ongoing concern for the merged organization. Mitchell, for example, recalled that the clients of the program in which she works were not invited to an all-agency Christmas party for clients.
- **External pressures and shared mission.** The emergence of managed care policies in the mental health field was the dominant motivation for the merger among the four organizations. When road blocks appeared in their negotiations, the stakeholder's mutual concern about both adapting to the changing environment and effectively serving their clientele spurred them to proceed.
- **Staff integration.** Although it is important to bring staff together to meet, work, and plan as soon as possible after a merger, Alliance leaders found that it was not helpful to force the "getting to know you" process. Anxiety about tasks and logistics interfered with purely social get-togethers early in the integration process.

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Authors

Amelia Kohm is a research associate at Chapin Hall Center for Children at the University of Chicago. Her research is primarily focused on primary supports for children and families—traditional community organizations such as community centers, clubs, religious programs, libraries, and parks. She is currently co-directing the National Study of Nonprofit Strategic Restructuring as well as a study of arts programming for children and youth in Chicago. She has published articles and papers and has given presentations around the country on strategic restructuring. She has also directed research projects and has published reports concerning the scope of primary supports in Chicago and the Tutor/Mentor Connection, a Chicago-based initiative. Ms. Kohm has worked in the philanthropic sector with The Sears-Roebuck Foundation, The Donors Forum of Chicago, and The Illinois Humanities Council. She has an M.A. in Social Work Administration from the University of Chicago.

David La Piana is founder of La Piana Associates, a consulting firm specializing in strategic issues for nonprofit organizations. He is also an adjunct professor at the University of San Francisco's Institute for Nonprofit Organization Management, and teaches in the MBA program at the Walter A. Haas Business School at the University of California, Berkeley. Recognized as a leading expert on partnerships among nonprofit organizations, Mr. La Piana has worked extensively with nonprofits in health, human services, the environment, and the arts. He is the author of *Nonprofit Mergers* (1994) and *Beyond Collaboration: Strategic Restructuring for Nonprofit Organizations* (1997). He received his Master of Public Administration in nonprofit organization management from the University of San Francisco. Mr. La Piana has received awards for his work from both the California State Assembly and Oakland Mayor Elihu Harris. Since 1979 he has worked as a nonprofit staff member, executive director, trainer, consultant and board member. He has held senior management positions with the YMCA, The International Institute and East Bay Agency for Children, a multifaceted human services agency which grew tenfold under his leadership. In 1997 he initiated Strategic Solutions to provide strategic restructuring assistance to nonprofits in their communities.

Heather Gowdy of La Piana Associates, received a Master of Business Administration from the University of California at Berkeley's Haas School of Business, where she concentrated on nonprofit management. Her work with nonprofit organizations has focused on such varied topics as organizational analysis and structure, strategic planning, business plan development, fundraising, event planning, and management information systems design and implementation. She has also conducted research on the specialized accounting needs and practices of nonprofit organizations running business enterprises. Prior to attending Haas, Ms. Gowdy worked as a technical specialist at Wilmer, Cutler & Pickering, a corporate law firm in Washington, D.C.

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