

Joining Forces in the 'Back Office'

Collaborative effort by Minneapolis charities combines groups' administrative operations

By Nicole Wallace

Small and medium-size charities can be at a disadvantage when it comes to handling financial and personnel issues.

Many can only afford to hire a single person to handle a number of specialized tasks, says Stan Birnbaum, president of a collaborative effort known as MACC CommonWealth Services, in Minneapolis. What they really need, he says, "is about a 10-percent CFO and maybe a 30-percent-time accountant and a 60-percent-time accounting technician."

To solve this problem, five social-service groups in the Twin Cities joined forces in January 2007 to create MACC CommonWealth — the group that Mr. Birnbaum leads — to share their "back office" operations.

The group, which is owned and operated by its member organizations, was formed by putting the administrative employees of the five charities together in one office. The result has been that each group can draw on the expertise of a staff of 20 employees.

Being able to provide administrative services at a larger scale has led to cost savings.

In its first year of operation, MACC CommonWealth saved the five original groups roughly \$200,000, while strengthening the quality of their operations. Other organizations have since joined, with MACC CommonWealth now providing administrative services to 10 local human-service charities.

The start-up costs were sizable — \$200,000 to set up the new organization and relocate employees, \$400,000 to build a data center and develop a new system for member organizations to record client data, and the "invisible cost" of staff time put in by the founding organizations, which Mr. Birnbaum estimates at roughly \$200,000.

But the organization was able to raise the money to cover the hard costs from local foundations, including the Otto Bremer and Southways Foundations.

'Old Ways' Not Working

The flagging economy presents both opportunities and hazards for MACC CommonWealth.

Its income derives primarily from fees that members pay, which are based on their total revenue. The budgets of many of the groups have already shrunk, which, in turn, means less money flowing to MACC CommonWealth.

But at the same time, more charities are interested in joining the collaborative.

"There are more people talking to us, because the old ways are just not going to work as well in the current economy," says Mr. Birnbaum. "Organizations are much more open to looking at ways of reconfiguring they might not have considered a year or two ago."

With additional members, however, comes added work.

"If we can add the complexity and scale up, that's the best of all worlds, but the current economy is not giving us as much opportunity to do that," says Mr. Birnbaum. "It's forcing us to take on some more complexity."

To make MACC CommonWealth possible, the group has had to create a system that standardizes the way member organizations operate as much as possible, while still allowing for customizing when the charities' work demands it.

In the area of finance, for example, the collaborative uses a master chart of accounts, a list of some 600 categories that member organizations can use to classify their financial transactions. For some groups, says Mr. Birnbaum, that has meant getting used to some new category names. What one group used to call "mileage" is now called "local travel" under the new system, for example. "We ask for people to focus on what it is behind the fact and to get comfortable with the label, and not to customize where customizing adds no value," he says.

Saving Money

Common operating procedures, combined with the organizations' joint purchasing power and the concentration of administrative expertise at MACC CommonWealth, has resulted in significant cost savings.

Member organizations, for example, developed a common set of ancillary benefits — like dental benefits, life insurance, and disability insurance — to provide to their employees, and MACC CommonWealth worked with a broker to put the benefits package up for competitive bidding. The process attracted multiple proposals, and the winning bid represented a savings of roughly 30 percent for member organizations.

A lone charity, says Mr. Birnbaum, might not represent enough business to attract many proposals, and with limited human-resources personnel it might be difficult to manage

the process. When it comes to purchasing, the knowledge of the people negotiating the deal is critical, he says.

"If you're purchasing a data network, and you know nothing about it, you're going to buy what your telco proposes pretty much at the price that they propose," says Mr. Birnbaum. "If you know the lay of the land better, you have much more leverage."

As important as shaving administrative costs is, Mr. Birnbaum thinks that the biggest benefit to member organizations is MACC CommonWealth's greater ability to avoid problems of fraud or inadequate staffing. An organization that has just one accountant faces a heightened risk of fraud because it cannot divide financial responsibilities among employees.

By contrast, with 14 employees in its finance department, MACC CommonWealth strictly separates who deals with the money coming in and who deals with the money that is being paid out. Another group of employees is responsible for preparing financial statements.

"Even our larger members couldn't get to the right division of duties," says Mr. Birnbaum. "If they had two or three people, when one person was gone on vacation, somebody else would back them up, which meant that you really couldn't segregate the work."

He also notes that charities with one-person finance or human-resources departments risk letting important functions fall through the cracks when that person leaves the organization, a problem that MACC CommonWealth's size eliminates.

Building Relationships

Finding the common ground necessary to start the new effort wasn't easy. The chief executives of the five founding organizations met to discuss the idea every other week for nine months in 2006.

During the meetings the executives talked about their vision for the new organization, their fears about what they would be losing if they went ahead with the plan, and the strengths and weaknesses of their administrative employees.

"We spent incredible amounts of time building the relationships that would allow us to give each other the benefit of the doubt when we had tough decisions to make," says Jan Berry, president of the MACC Alliance of Connected Communities, the network of 28 social-service groups that MACC CommonWealth grew out of, and one of the collaborative's five original members.

Tony Wagner, president of Pillsbury United Communities, in Minneapolis, thinks that it was time well spent.

He says that during the start-up phase — and even now, a little more than two years into the organization's operation — the executives have had to make decisions where the choice that was best for the collaborative wasn't necessarily the best choice for an individual organization.

Before starting MACC CommonWealth, Pillsbury United Communities — by far the largest of the five founding organizations — had the most sophisticated financial system. But Pillsbury had to make significant changes to accommodate the other groups' procedures and help pay for the new system.

Mr. Wagner says the overall benefits of the collaboration for Pillsbury outweigh the individual decisions that didn't work in the group's favor. But without the ties he and the other chief executives had forged during the months of discussion, it would have been difficult to move beyond them.

"If I weren't committed to the collective, I'd say, 'Why would I pay to do that?'" says Mr. Wagner. "This is costing me money that I don't need to spend right now."

At the same time that the chief executives were holding discussions, three top administrative employees from the founding organizations met to flesh out a model of what the joint back-office operation would look like.

Letting the people who would actually do the work design the system was critical to the project's success, says Molly Greenman, chief executive of Family & Children's Service. Not only did they come up with a more effective plan than the executives would have, she says, but also the process got them involved in the changes that were to come.

"They could have prevented this from succeeding," says Ms. Greenman.

Meshing Work Styles

Still, when the organization got its start in 2007, building a cohesive team out of employees from five organizations, each of which had its own culture, took time and careful management.

Ms. Greenman says the type of work that each of the groups does has had a strong influence on their working environments.

For example, mental-health counseling is one of the primary services that Family & Children's Service provides, which shapes the organization's way of doing things.

"Therapists have offices," she says. "People are scheduled. Work gets done behind closed doors, and that kind of atmosphere permeates throughout the organization, even though we have other services that are community-based."

The other founding charities are community centers or groups that came out of the settlement-house tradition. "It's a much different feel, much more casual," says Ms. Greenman. "People come in and out, and there's a lot going on."

Friction over working styles might seem small, says Ms. Greenman, but for the good of the new organization, it was important that staff members talked through the issues and everyone gave a little — either by being quieter in the halls or learning that it was OK to shut the door sometimes.

Early on, two employees decided that they didn't want to be part of the changes and resigned. Midway through the second year another employee, weary of what was now a 35-mile commute, left as well.

But everyone else has stayed, which Mr. Birnbaum says is an improvement over the member organizations' previous ability to retain administrative employees, even when the early staff losses are taken into account.

Now that the initial growing pains are largely past, he says, workers realize that the new organization gives them more opportunities for advancement, a richer mix of colleagues, and more varied responsibilities than any of the original charities could offer their administrative employees.

And he believes the decrease in employee turnover will lead to additional cost savings and contribute to greater continuity for member organizations.

With time, the collaboration among member organizations has expanded.

MACC CommonWealth now offers a new database system that charities can use to record information about clients, and fund raisers from several member groups are meeting to discuss whether there are portions of the solicitation process that could be handled more efficiently by the collaborative.

Working through MACC CommonWealth, four member organizations joined together to win a county contract to provide youth-development services.

"So all of a sudden, in addition to just being an expense to our members, we're also on the revenue and the program side," says Mr. Birnbaum.

He says that the partnership is having discussions with other government agencies about other potential contracts. "It's become a natural outgrowth of the collaborative momentum that we've developed."