

Trust as an Asset

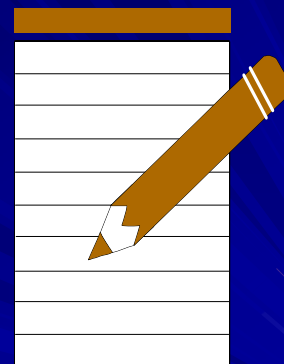


*Building Capacity for
Administrative Excellence
within MACC*

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Agenda for today's presentation

- Introducing the actors
- MACC CommonWealth—
what is it?
- MACC CommonWealth—how
did we get there?
- Future of MACC
CommonWealth
- Lessons learned
- Open discussion



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1. Introducing the actors

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What is MACC Alliance of Connected Communities?

- integrated network of 20+ non-profit community organizations
- rooted in the communities we serve—for more than a century!
- 300,000 people served every year
- 1,000 employees
- Combined budgets of about \$64M

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MACC members include:

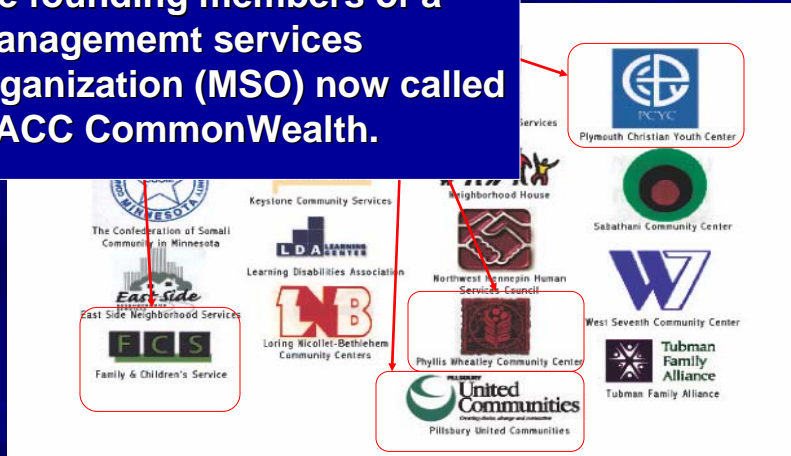


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MACC + 4 MACC members are the founding members of a management services organization (MSO) now called MACC CommonWealth.



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Characteristics of the founding members

- Community based service providers
- Relatively large number of service locations (given their size)
- Small entities (budgets of \$<1M to \$16M)
- As a group, experienced pervasive shrinkage of administrative departments in the four years before launching MACC Commonwealth
- Each has compromised staff capacity in one or more administrative area.

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MACC Commonwealth: What is it?

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MACC CommonWealth defined (1)

a collaborative effort of a group of MACC members to jointly manage their core administrative services (finance, human resources and information technology).

- ✓ owned and operated by MACC members
- ✓ managed by members in an environment of high transparency, long-term commitment and mutual inter-dependency

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MACC CommonWealth defined (2)

a non-profit limited liability company incorporated in the State of Delaware (applying for 501(c)(3) status) with independent management and governance

- ✓ an entity distinct from MACC and its members
- ✓ a corporation that has to achieve and maintain financial and operational viability

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MACC CommonWealth history

- Original vision for an MSO held by the founders of MACC Alliance of Connected Communities
- MACC secured LarsonAllen review in 2003
- Team of MACC CFOs analyzed options in 2004
- “Go-ahead” decision made in Jan. 2005
- Five MACC members operate administrative services jointly (through joint venture agreement)
- MACC CommonWealth, LLC corporate launch on Jan. 1, 2007

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MACC CommonWealth is a response to four specific points of pain

- **staffing:** how to attract, retain and fund the required skill sets
- **scale:** how to re-size management resources in conjunction with program changes
- **cost:** how to control overall cost of management and operations in today's funding environment
- **risk:** how to manage growing environmental risk without incurring undue cost



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MACC's board evaluated two models for launching the MSO

	Model 1	Model 2
Key characteristics	Architected service model	Figure out model "on the fly"
Staffing	Selected based on specific competencies	Start with founding members' existing staff
Pace of implementation	Careful and deliberate	Fast
Theme	"Build it and they will come"	"Let's get hitched, we'll figure out life afterwards"
Nickname	too dignified for a nickname	"smoosh"

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our sense of urgency led us to the second model (founding members believed this model was ultimately lower risk)

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Our current governance structure maintains control while limiting risk

- Each member organization has two seats on the board of directors (CEO + director)
- The CEOs comprise the LLC's executive committee
- Resources used to provide services are owned by the LLC
- LLC staff are accountable to the Board of Directors
- Members are legally insulated from the activities of the LLC

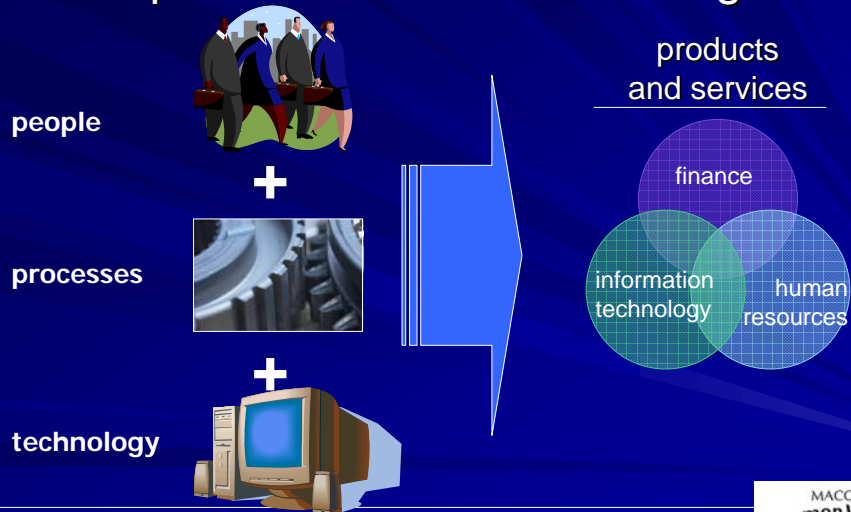
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MACC CommonWealth developed a set of product and service offerings



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Each product area provides a broad—but limited—range of services

finance	human resources	information tech.
<ul style="list-style-type: none"> ✓ general accounting services ✓ management of payables and receivables ✓ financial reporting and statements ✓ budget support ✓ government reporting ✓ banking and cash management ✓ audit support ✓ form 990 and other government filings 	<ul style="list-style-type: none"> ✓ administer pay and time reporting ✓ design, purchase and acquire benefits ✓ design and administer leave programs ✓ maintain records ✓ develop and interpret policy ✓ design and administer performance review systems ✓ employee relations ✓ respond to employee inquiries 	<ul style="list-style-type: none"> ✓ general management of IT infrastructure (servers and end-user equipment) ✓ help desk ✓ system user adds, deletes and changes ✓ use of remote data center resources ✓ wide-area networking, and internet access ✓ manage technology assets (including licensing compliance)

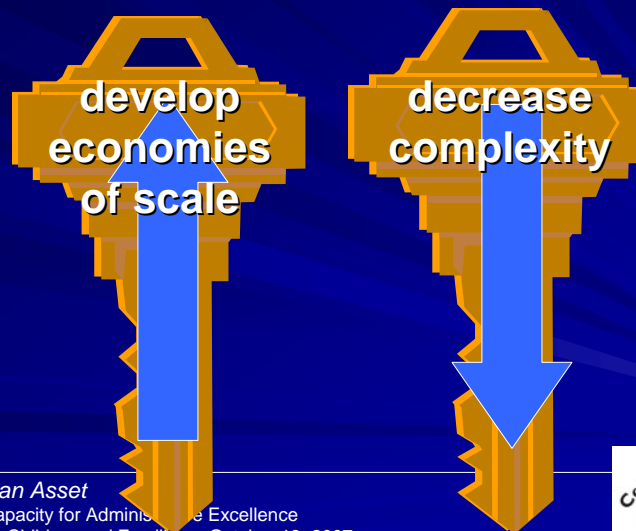
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There are two keys to making Commonwealth services cost effective



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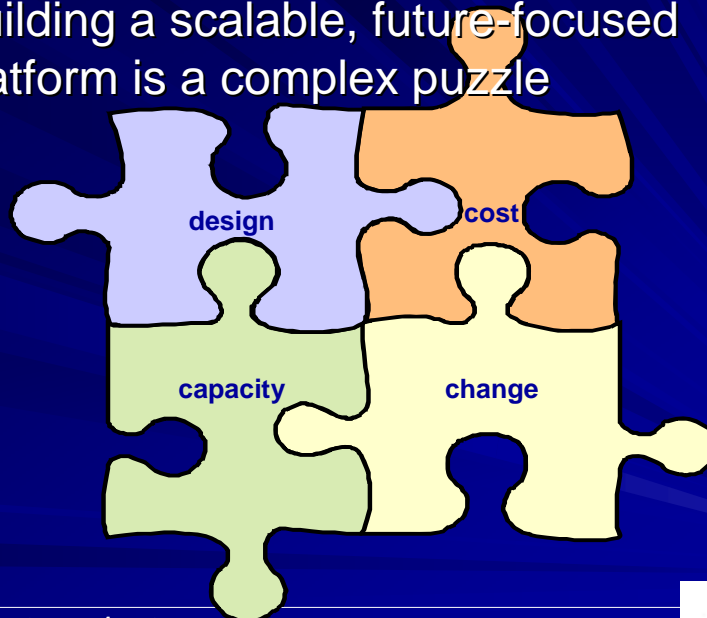
Each of our product/service areas is designed to meet these outcomes

Product area	Method for introducing economies of scale	Method for reducing complexity
Finance	use of enterprise-scale financial platform (Microsoft Dynamics)	standardizing operations and processes
Information Technology	enterprise-scale distributed infrastructure	rigorous adherence to standards, wide use of "thin client" computing
Human Resources	streamline processes, use ADP payroll with Stromberg time-reporting software	develop common practices and systems

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Building a scalable, future-focused platform is a complex puzzle



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Addressing these issues in our build-out required pervasive attention

Examples

	Finance	Human Resources	Information Technology
Design	Common chart of accounts	Common recruiting systems	Significant growth in scale/complexity
Cost	Acquire seats for financial software, report design, etc.	Acquire and implement time-keeping software	Build VOIP-capable WAN across 20 locations
Capacity	Provide consistent service to multiple organizations	Provide consistent service to multiple organizations	Provide consistent service to multiple organizations
Change	new financial reports	changed pay practices	rigorous adherence to standards

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Success required driving change across multiple organizations... *simultaneously*

- We had to overcome a tradition of deferring to individual CEO preferences
- We had to overcome natural CEO conservatism from CEOs in several high-risk areas
- We had to overcome variance that flows from divergent board practices
- We worked on all these tensions *collaboratively*

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Costs are charged out on a “co-op” model



- CommonWealth costs for services are passed on to members based on their size (that is, the proportion of resources they utilize)
- 2007 pricing for Finance and HR services range from 4.5% to 5.4% of operating expense
- IT services are a function of total volume and complexity of equipment in use

because all services are designed to scale, adding new members lowers future cost

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We have a strong track record of accomplishments to date



Year 1 (2006)

- Co-located and developed cross-organizational team
- Selected and began implementing financial platform
- Designed common chart of accounts
- Selected common pay and timekeeping systems
- Created initial level of IT network integration
- Designed IT architecture

Year 2 (2007)

- Implemented new financial system (all organizations live on Jan. 1)
- Designed and implemented common financial reporting
- Migrated all members to new pay and time reporting tools
- Developed shared recruiting systems
- Implemented new data center and fully integrated technology networks
- Implemented shared telecom systems

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Financial benefit to members has been significant (but generally indirect)

- *Significant* benefit from MACC capital campaign (benefits shared between MACC and MCW)
- *Incremental* savings in ancillary health and welfare benefits (health insurance savings is tougher in MN)
- *Significant* savings procuring new IT systems (plus highly favorable vendor-subsidized leasing agreement offered significant cash flow relief)
- Significant savings in cost of telecom capacity

These savings amount to almost 10% of service fees

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MACC Commonwealth: How did we get there?

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Critical Pre-Conditions

- Members experiencing financial pain with little good news on the horizon
- Leaders of vision and courage willing to be the first to adopt.
- MACC provides neutral and strength-based leadership
- Leaders bring positive trust-building experiences from their membership in MACC

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The CommonWealth built on the MACC membership value of deep collaboration

- Collective mission and vision
- Relationship-based efforts
- Experiences with planned, joint strategies that led to joint benefit.
- Multiple levels of communication and responsibilities
- The tension between autonomy and common good are regularly examined by the whole group.
- Leadership is dispersed and all contribute.
- More is accomplished jointly than could have been individually.
- Resources are pooled and shared.

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CommonWealth members contributed resources up front

- Time –CEO's met every other week for 1 ½ yrs plus were very active in fundraising campaign
- Intellectual capital- Each member researched methodologies, built on their collective experiences
- Cash and other resources- each member contributed assets to the start-up.
- MACC launched a \$1.7M capacity building campaign, over half of the money earmarked for CommonWealth start-up

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Critical principles for building trust

- Focus on assets and attraction – MACC cannot compel anyone to do anything.
- Competition and cooperation are both focused on building the common good.
- Build on the passion and values of the leaders
- Relationships will make or break the effort
- The assumption that we all need to change
- Continuous re-examination of assumptions in light of an ever-changing landscape

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The future of MACC Commonwealth

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MCW will enhance its revenue through two dimensions of growth

add members

reduce existing member costs by achieving new economies of scale

revenue growth

develop new products and services

enhance value for all members

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Future needs may call for a different role for MCW

- The environment is changing so rapidly that the challenges we face tomorrow will differ from the problems that led to the formation of the MSO
- The members' ownership of an administrative services arm significantly reduces barriers to new forms of collaboration and integration

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Lessons learned

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The trust-building experienced by the first five CEOs cannot be replicated

- New methods to build trust for the next group of CommonWealth members is required
- By-law changes to include membership that contracts for a portion of the services rather than all of the services offered.

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Economies of scale are often offset by complexities of scale

Activity	Increases in direct costs (increased cost of goods or services)	Increases in indirect cost (primarily staff time)
manage a separate legal entity	audit legal insurance	governance
MCW growth (new members / new products)	marketing materials	marketing activities product design
support independent operations	legal	pricing contracting staff leasing

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One-time costs to build the platform were greater than expected



- our model (the “smoosh”) permitted a very light level of due diligence, which in turn permitted rapid creation of the MSO
- assets provided by founding members often proved to be of very low value and needed to be replaced
- building a scalable platform calls for new cost that none of the founding members had to incur previously

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Multiple factors led to significantly higher technology costs than anticipated



- technology is a “discovery process”—the cost of solving the problem can only be known by solving the problem (by nature, estimates are crude)
- members’ appetite for new products and services accelerated sharply with strong IT professional leadership
- more of the existing infrastructure needed replacement than originally assumed

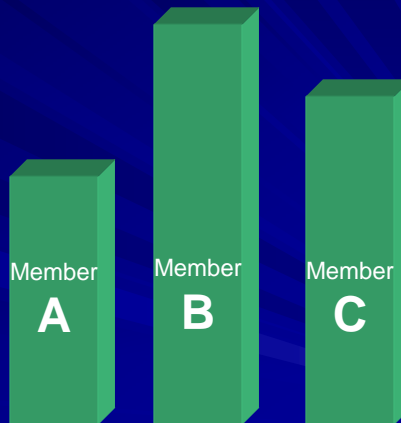
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The “highest bar” phenomenon increases aggregate cost (1)

In this hypothetical example, the green bars represent the quality or level of service each of three members currently provides in their organization (before forming the MSO) for a given area of management service.

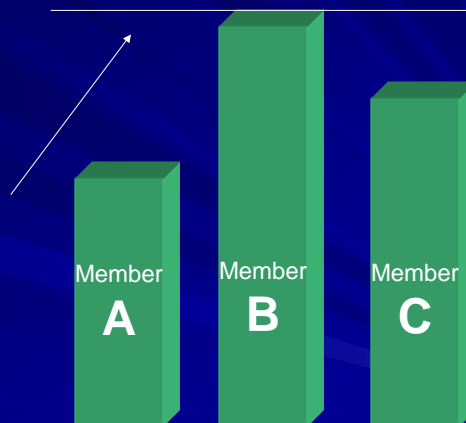


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The “highest bar” phenomenon increases aggregate cost (2)

The MSO's initial level of service must meet the highest level of service of the three members to avoid reducing the level of service to member B

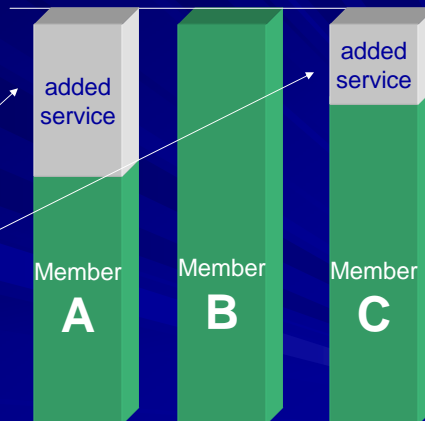


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The “highest bar” phenomenon increases aggregate cost (3)

Offering service at this highest level means a higher level of service for the other members—which translates into additional aggregate cost for the MSO.



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The “highest bar” phenomenon introduces a complex paradox

- The set of products and services we have developed is more robust than the set of services most MACC members have in place today
- As a result, joining MCW may result in *increased cost* rather than *decreased cost*—however, the value provided is dramatically increased
- We have learned to describe our value proposition carefully—we offer robust administrative services at a lower cost than any of the members could manage independently.
- We are careful to de-emphasize cost as the sole or primary reason to participate in the MSO.

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Open discussion

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