The Case for Nonprofits to Think Like For Profits: Ensuring Long-term Success

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The nonprofit world is changing. The future success of the more than 1.6 million nonprofits will be defined by strategic alliances. Innovation that results in true social change requires us to abandon our silos and fears and learn to create new partnerships.

The external environment for the nonprofit industry has never been in as great a state of flux – particularly for organizations tackling social problems that are difficult to measure quantitatively. Funding is highly volatile, dollars are scarce and demands for demonstrating success – in the form of increased and measurable impacts on clients and the communities the organizations serve – are higher than ever. These forces have driven some nonprofit pioneers to explore new ways of delivering services in better, more collaborative and more cost-effective ways.

Nonprofits must be more agile in adjusting to change, more data driven in making decisions, better positioned to partner, to act quickly and flexibly, and to innovate in ways that have meaningful impact. This is possible if they learn to deploy targeted goal driven strategies and employ leaders with strategy roles to address the outdated corporate structures and aging program models.

Many nonprofits lack the entrepreneurial spirit needed to succeed. In some cases, working together strategically and consolidating operations and thinking like our for-profit counterparts doesn't seem to be in our DNA. A disruption in the marketplace with nonprofit partnerships as a business model must be made in order to drive to expanded service delivery and better outcomes.

New Nonprofit Business Model

Capitalizing on opportunities presented by the new paradigm will require nonprofit providers to adopt a new business model that is both capable of pursuing traditional consolidation strategies and supported by innovative organizational and financial designs. The goal is twofold: growth in service capacity, revenue and impact, and new mechanisms for accessing support capital.

The new model must support a strategy that recognizes managing mergers and acquisitions (affiliations) as an organizational skill. Key tenets of this strategy should include:

- Adopting formal management-design and boardapproved acquisitions criteria that includes a focus on speed of execution.

- Using both experienced, in-house business development professionals and consultants to maximize the deal flow. As opposed to for-profit, an absence of ownership interest and the impact of the trustee process can slow or even stop affiliations for nonprofits.
- Recruiting knowledgeable and experienced legal counsel in mergers, acquisitions and nonprofit law.
- Willingness and capacity to deploy capital to induce nonprofit targets with superior growth prospects to affiliate.

The new nonprofit model may incorporate a holding company organizational structure to facilitate the changes in corporate control, capital formation, efficiency and risk mitigation. The structure should allow quick entry into new geographic and program markets. It also helps create centralized governance under the parent organization that exerts control and decision-making capabilities.

The adoption of a new nonprofit business model does have implications for the industry that includes increased efficiency resulting from better allocation of the capital available and improved governance, management and systems, leading to increased competitiveness and, ideally, effectiveness.

Few nonprofits enter into strategic partnerships, and far fewer acquire, merge or affiliate with other nonprofits. This is in direct opposition to the private sector, where business growth and development strategies include plans for mergers and acquisitions. Annual surveys from the Nonprofit Finance Fund have consistently shown that only two to three percent of nonprofit leaders and boards, regardless of their financial positions, consider merging and affiliating with other nonprofit organizations.

What will it take for nonprofits to begin to work together more strategically, to consolidate operations and focus on their missions? And what are the steps nonprofits need to take to create such partnerships?

Public Health Management Corporation's Success with Affiliations

Public Health Management Corporation (PHMC) is one of the rare nonprofit health and human service organizations that has been engaged in mergers and affiliations for more than 30 years. Since 1984, PHMC has strategically used its organizational infrastructure and size to partner with mission-aligned nonprofit colleagues through its affiliation model. The goals with any new affiliation have mainly been to expand operations and programs, wrap services around clients and enable the affiliate organizations to allocate their operational resources to better compete.

PHMC is a Pennsylvania-based 501(c)(3) nonprofit whose mission and business model includes bringing together like-minded nonprofit organizations under one parent company to collaborate with and benefit from economies of scale, information sharing and the pooling of expertise, as well as wrapping services and leveraging impact. It currently runs more than 350 programs that provide direct and indirect resources and care to tens of thousands of individuals across the Philadelphia metro area through its family of affiliates and partnerships with government, foundations, businesses and community-based organizations.

PHMC strongly believes in the organizations with whom it affiliates, and is supportive of their missions to serve their populations. As the parent organization, PHMC looks to provide critical infrastructure support enabling these smaller nonprofits to focus on delivering vital services. In return, PHMC looks to these affiliates to share financially in overhead and support services and to wrap services around clients. This innovative affiliation model has allowed PHMC to create a nonprofit health system with far-reaching scope.

Why Nonprofits Should Affiliate

Partnerships and affiliations are often left behind when it comes to what should be happening in the nonprofit sector. While the mission is to help others, the organization must be able to obtain funding that will allow it to expand services, staff appropriately and continue to evolve to address the changing needs of the community. Nonprofits should be open to examining new ways to expand operations in response to growing need.

PHMC believes strongly that there is strength in numbers and that through affiliation, both organizations can have a broader community impact. For any affiliation to be successful, the process starts with the support of both the senior leadership and the board members of both organizations. PHMC has built its model around attracting agencies that are mission aligned and whose services can be wrapped around existing consumers within the PHMC family. The next step for PHMC is making sure that both organizations have the same goals in mind and that the affiliation would achieve the following:

- strengthen existing compatible missions;
- increase opportunities to preserve critical community assets and extend the programs offered by both organizations;
- enhance financial stability; strengthen program and operations infrastructure capacity for both organizations;
- grow new relationships that support each organization's mission; and
- provide new opportunities for staff career advancement and benefits.

As the result of an affiliation, the affiliate organization will typically have access to opportunities that will increase capacity. This can include access to a network of partners, clients and funders, to new sources of philanthropic and public funding, the ability to bid on and secure larger private and public contacts, to accelerate the growth of existing programs and services and enter new markets. PHMC, in turn, will have access to new resources and service operations for its clients.

Now that we've established the importance of affiliations, what is the process and how does one carry out an affiliation?

The Affiliation Process

There are several key elements needed when building affiliation opportunities. But starting at the very beginning, it's important to understand that opportunities are everywhere. Be open to them. Assume everyone can help you until they prove that they can't – you never know where a relationship might lead you. Don't be afraid of the transaction. There is an art to it. There will always be an "ask" and you need to know what you want and not shy away from asking for it.

PHMC's affiliation process can take up to six months of organizational due diligence. In the first two months, PHMC's affiliation team meets with the prospective affiliate partner's board and leadership to determine the interest in exploring an affiliation. Once there is overall leadership support, both parties sign a non-disclosure agreement and then over, approximately, a 60-day period, both agencies complete a programmatic and fiscal analysis. PHMC also analyzes the potential impact on other affiliates and partners. During the time that the affiliation agreement is negotiated, quality management issues are identified, and marketing and communication strategies are developed. Finally after 120 days, both boards finalize the approval of the affiliation agreement, the change of bylaws and complete and sign the management contract.

As with any such business transaction, much of this actual process is preceded by "the dinner" – a frank discussion often including the two CEOs and/or board chairs to resolve commitment and framework.

The common theme behind the success of all of the affiliations is relationships. As with all partnerships, relationships built on trust are essential for success. Mission alignment and the leadership of the partner organization are also critical. Equally important is the belief that the partnership will increase opportunities to preserve critical community assets and extend the programs offered by both organizations.

Partnerships can take many forms. In the summer of 2012, the Holy Family Institute (HFI) in Pittsburgh and Public Health Management Corporation (PHMC) in Philadelphia, came together to discuss a partnership through which the HFI could divest itself of a major program – St. Mary's Villa for Children and Families (SMVCF), a program that provided residential services for children and youth for 100 years.

For years, the CEOs of the two agencies had discussed the possibility of this idea should the HFI ever decide to divest itself of SMVCF. HFI began to strategically assess its future due to the present economic environment. In the true spirit of viewing challenges as opportunities, HFI examined a number of realignment options, which led HFI to two obvious strategic choices – find a partner with a like mission, proven experience and a passion for continuing its work into the future or they would have to dissolve the corporation, clearly a worst case scenario. HFI chose to look for potential partners based on mission and value alignment, location, capacity, and commitment to sustaining and growing the SMVCF programs. After four months of the due diligence process, they knew exactly what they could do and how they could do it even though it meant giving up the program they nurtured for more than 100 years.

A critical point in determining whether a partnership can work between two organizations is the mission alignment. In this case, the missions of both PHMC and the HFI were aligned in their focus on children and youth services. PHMC was already in the business of residential treatment and had a desire to grow the business to serve more children and youth.

It’s not to say that there won’t be challenges along the road to affiliating, but with continuous communication, clarity of purpose, dedication to the mission, and continued respect and trust between all parties, the process should proceed in the right direction.

Charles Darwin once said, “It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change.” The for-profit sector has adapted to the current trends of budget cutting and privatization of government services through third-party contracts. In spite of increased consolidation, nonprofit organizations as a whole remain more fragmented, and their ability to change remains hampered by archaic business structures.

It’s now time for us to take Darwin’s lead and create an entrepreneurial spirit that disrupts the norm. Let’s start adapting nonprofit business structures to address the change.

About the author: Richard J. Cohen, PhD, FACHE, is recognized nationally as an authority in the public health management arena. He is president and CEO of Public Health Management Corporation (PHMC), where he leads more than 2,000 employees, across more than 350 public health programs and a family of affiliation organizations. Under his watch, the organization has expanded exponentially and

continues to grow, with a current operating budget of approximately $180 million. Dr. Cohen has devoted his professional life to the needs of Philadelphia and the surrounding region while playing a critical role at the national level as well.