

# Affiliation Basics, the Public Health Management Corporation Story..

Richard Cohen and Tine Hansen-Turton 23 January 2013

Few nonprofits merge or affiliate with other nonprofits. This is in stark contrast to the private sector, where often part of business growth and development is mergers and acquisitions. When nonprofit leaders are asked in annual surveys from The Nonprofit Finance Fund and others, in spite of their financial situations, only a fraction (2–3%) of leaders respond that they are in discussions with other organizations about mergers and affiliations. For every one successful nonprofit affiliation and merger, there are hundreds that did not happen but should have. Why is this? And more important, what will it take for nonprofits to begin to work together more strategically to consolidate operations and focus on their missions?

The purpose of this article is to shed light on one organization's affiliation model and its lessons learned as a pioneer in the nascent nonprofit affiliation and merger marketplace. Since 1989, Public Health Management Corporation (PHMC) has strategically used its infrastructure and size to partner with mission-aligned nonprofit colleagues through its affiliation model. The

focus on these affiliations has been to drive down costs and enable the affiliate organizations to better focus their operational costs to better compete.

PHMC is a nonprofit public health institute that creates and sustains healthier communities using best practices to improve community health through direct service, partnership, innovation, policy, research, technical assistance and a prepared workforce. PHMC has served the greater Philadelphia region since 1972 and has become one of the largest and most comprehensive health and human services organizations in the nation. PHMC fulfills its mission to improve the health of the community by providing outreach, health promotion, education, research, planning, technical assistance and direct services.

PHMC currently has ten affiliates, of which three are support affiliates, with a consolidated annual operating budget of over \$175 million, in addition to a foundation with close to \$40 million in assets. Through its 250+ direct services programs and ten affiliate partner organizations, its work in emergency preparedness across the region and its various partnerships with government, foundations, businesses and community-based organizations, the work of PHMC impacts every household in the Philadelphia region. PHMC currently serves 125,000 clients. The combined annual impact of PHMC and its affiliates on the Philadelphia community's economic vitality is estimated to be in the range of \$500

million. Of every dollar received, on average 92¢, or a total of \$161 million, go toward program services.

## **The PHMC Affiliation Model:**

Affiliations are strategically different from mergers. In a merger, one of the organizations usually loses its identity and ceases to exist. Some or all staff and board leadership are absorbed into one of the organizations or the newly merged corporate entity. Affiliations are different. In this model, staff and board leadership usually remains intact following some economies of scale and back-office consolidation. In the nonprofit sector, an affiliation is similar to the relationship between a subsidiary corporation and its parent corporation. The parent corporation has some level of control; however, in general the corporations operate independently but rely on economies of scale, like common back-office services: finance, human resource, information technology and communications support.

PHMC strongly believes in the missions of the organizations with which it partners and wants them to keep their identities and leadership as they affiliate. PHMC's management style is to stay in the background and support its affiliate organizations. The PHMC affiliation model works as follows:

- The partner agency retains its own 501(c)(3) status and federal tax ID number, files its own 990 and

completes individual agency audit.

- The partner agency has its own board of directors and keeps its own assets and liabilities. There is a firewall between PHMC and the affiliate nonprofit organization.
- PHMC and the partner agency sign an affiliation agreement. The partner agency amends its articles of incorporation and by-laws to reflect the affiliation agreement and its new legal structure as a membership corporation, with PHMC as the sole member of the corporation. Within the affiliation agreement is the ability for the two organizations to part ways should the partnership not flourish. To date, PHMC has disaffiliated with two organizations, but remains connected to them in other ways like management contracts.
- Existing partner agency staff are retained; HR policies and benefits are changed to better mirror those of PHMC.
- Existing board members remain on the board of the partner agency. However, PHMC appoints two board members. PHMC has a seat for affiliate board representation on its own board.
- Following a due diligence process, which analyzes the partner organization's need for back-office support, the partner agency enters into an annual management contract with PHMC for PHMC's provision of information systems, fiscal, human resources, communications and marketing, program

and strategy development support, quality assurance and related infrastructure services with an arms length negotiated contract for service.

## **Why Should Nonprofit Organizations Affiliate?**

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What PHMC has learned over time is that affiliation is not for every nonprofit organization and its leadership. In fact, the support of both the senior leadership and board members of both parties is key to the success of these strategic partnerships. 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. Furthermore, PHMC beliefs strongly that there is strength in numbers and that through affiliation both organizations can have a broader community impact. However, there are some key strategic indicators that should be in play before considering an affiliation. Both agencies should have the same goals in mind when exploring an affiliation and should ask themselves the following key questions: Does an affiliation...

- Strengthen existing compatible missions?
- Increase opportunities to assist in preserving critical community assets and extend programs offered by

both organizations?

- Enhance financial stability and create economies of scale?
- Strengthen programmatic and operations infrastructure capacity?
- Grow new relationships that will support mission?
- Provide new opportunities for staff career advancement and benefits, as well as access to academic programs and training to retain talent?

In PHMC's case, the affiliate organization leadership is usually looking for the following opportunities and is looking to grow and scale. Primarily, they want:

- Access to network of new partners, clients and funders.
- Access to new sources of philanthropic and public funding.
- Ability to bid and secure larger private and public contracts by having the backing of a larger parent organization.
- Administrative and infrastructure support as needed, including but not limited to human resources, IT, accounting and marketing.
- Ability to accelerate growth of existing programs, services and markets and enter new markets.
- Access to a line of credit.

## **The Affiliation Process—How it Works:**

PHMC's affiliation process usually takes up to six months of organizational mutual due diligence. In months 1–2, PHMC's affiliation team, led by Tine Hansen-Turton as chief strategy officer, meet with prospective affiliate partner's board and leadership to determine interest in exploring an affiliation. Prior to the formal process, PHMC would already have done some preliminary financial analysis of the health of the nonprofit. One of the challenges in the nonprofit sector is often that when an organization's leadership begins to think about strategic partnerships, it's usually when the organization has begun to lose money. However, when that happens, it is usually too late for the process to be initiated.

Once there is overall leadership support, both parties sign a non-disclosure agreement. Over a 60-day period, both agencies complete a mutual programmatic and fiscal due diligence analysis. As a management company, PHMC specifically focuses its efforts on assessing back-office support needs and the develop management contract, based on the needs of the organization in the areas of human resource support, information systems and finance support. PHMC management services are determined by the need of the affiliate partner organization, which usually makes PHMC more competitive compared with agencies that charges a flat back-office overhead rate. Over the 60- to 120-day period of the due diligence process, program staff explore program development opportunities, including exploration of funders and

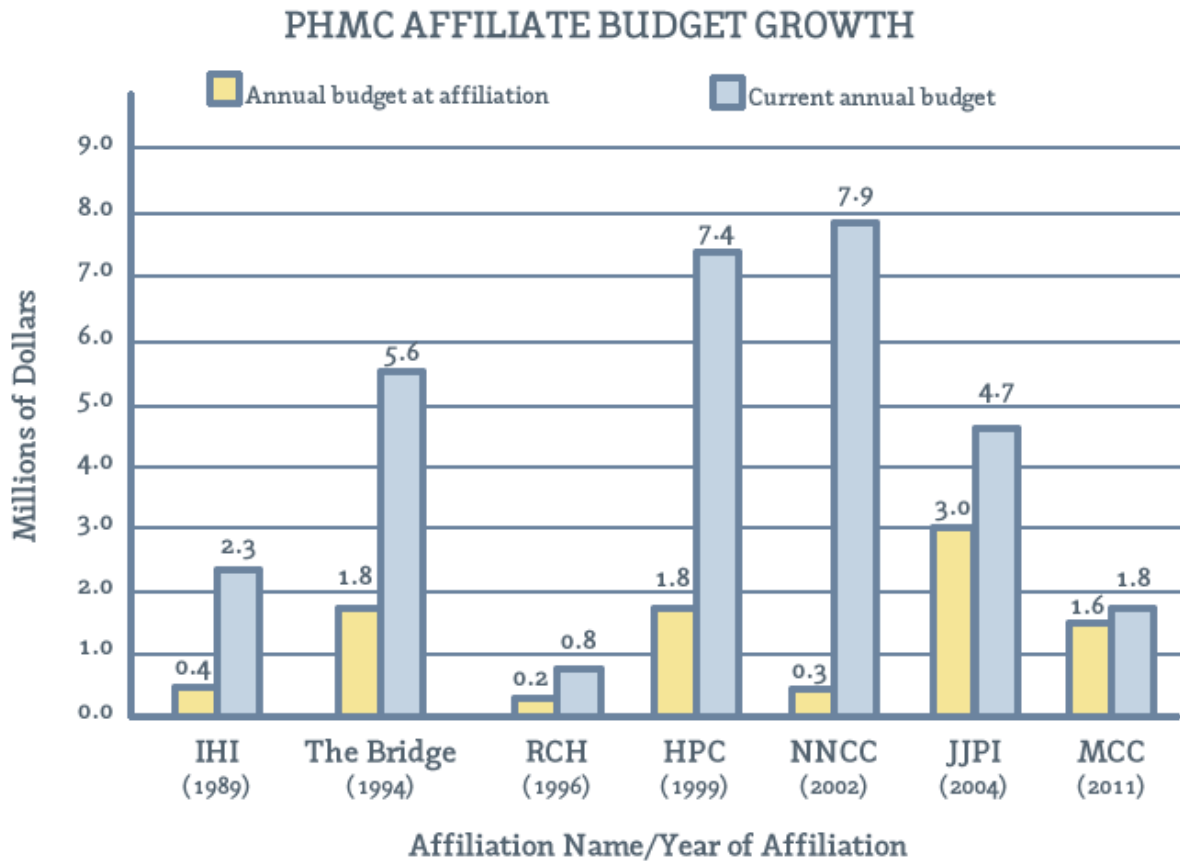
contracts. PHMC also does an analysis of what impact this new potential affiliation could have on other affiliates and partners. In this period, the affiliation agreement is negotiated, quality management issues are identified and marketing and communication strategies are developed. Finally, in the 120- to 180-day period, both boards finalize the approval of the affiliation agreement and the change of by-laws and complete and sign management contract. Staff of the affiliate partner organization are introduced to transition plan. All administrative issues for on-boarding and ongoing maintenance are finalized, such as consolidating human resource policies and financial management, including accounts payable, billing and purchasing arrangements and integration of information systems.

The affiliation process can end at any given point during the six-month period. It usually happens around board and leadership's discomfort with parent-control issues and when it is obvious that the mission is not aligned and the parties have fewer prospects than initially believed. Nevertheless, while the due diligence process is key to the success of affiliations, the leadership of both organizations take a leap of faith that a strategic partnership will bear fruit for both.

**Affiliation Impact:**

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To date, all PHMC affiliate organizations have increased their budgets and community impact up to tenfold or more within a short period. The whole is clearly greater than its sum of its parts.



## Why Relationship Matters

Contrary to mergers and acquisitions in the private sector, nonprofit sector mergers and affiliations are a relationship business. The common theme behind the success of all of the affiliations is relationships, and relationships built on trust and over time. These include relationships between the leadership of PHMC and the affiliate organization leadership, as well as in the funding community, including the City of Philadelphia and other government agencies, which has a vested interest in ensuring that the

organizations it supports are strong fiscally and in management.

PHMC's story is no different. In the following summaries is a background story of relationships among leadership and staff of both organizations that have been built over time and built on a foundation of trust.

Interim House: Interim House was PHMC's first venture into the affiliation model. Richard Cohen had a strong relationship with the organization and its leadership. Interim House services were known to be considered exceptional by the women served in the residential treatment facility in Mt. Airy. However, the organization was in financial distress and the program was in financial trouble. Funding agencies like the city's Offices of Substance Abuse and Drugs and Alcohol were very supportive of PHMC's helping the program, which started with PHMC entering into a management contract to turn the agency around. PHMC provided management services with the support from city government agencies, and the board ultimately turned into an affiliation in 1989 and eventually creating a program for women and their children at Interim House West in West Philadelphia. However, it was the relationships that the leadership of PHMC had with the organization and the funding community, including the city, that enabled the affiliation to happen.

The Bridge: In the early 1990s, the Bridge, a residential

program for adolescents, was in serious financial trouble to the point where it was at risk of going out of business. The program was strong and well liked by funders like the city but it was losing significant amounts of money. PHMC was retained with support from the city's drug and alcohol office to do a management intervention. At the point when PHMC intervened in 1993, the program was losing over \$500,000. PHMC and its lawyers did something unheard of in the nonprofit sector at that time, yet common in the private sector: It put the Bridge through bankruptcy to be able to resolve all of its debt issues. PHMC negotiated with all of its creditors and came to a common agreement on payback terms for funding earned—within a six-month period, the debt was resolved. The Bridge became an affiliate of PHMC in 1994. Since then, the Bridge has been managed well within a fee-for-service environment and with strong leadership and is about to grow in the next years.

Health Promotion Council (HPC): The former executive director of the Health Promotion Council had been a long-time colleague and friend of Richard Cohen and other senior management of PHMC. However, the affiliation idea was initiated by Philadelphia region consultant Don Kligerman, who introduced the leadership of HPC to thinking about the possibility of growing with a larger mission-aligned organization that could help it grow and scale. HPC affiliated in 1999 and has seen tremendous growth and expansion in services through the affiliation,

including the ability to successfully bid on state funding, which it would not have been able to secure without a strong infrastructure such as PHMC's. Most recently, another PHMC affiliate, Resources for Children's Health, consolidated its programs with HPC and is now operating as a program of HPC.

National Nursing Centers Consortium (NNCC): PHMC manages a network of nurse-managed federally qualified health centers and was a founding member of what became the National Nursing Centers Consortium. There was total mission alignment from the beginning. In 2001, what was the Board of the Regional Nursing Centers Consortium, and Tine Hansen-Turton, who ran it, decided to go national and focus on the key policy and programmatic issues of the nurse-managed health center movement. The focus on policy and programs led the group to easily decide that affiliating with an organization with strong infrastructure and back-office support would be key to its success and its need to focus on national and state policies impacting nurse-practitioner- and nurse-managed health clinics. As with most affiliations, the rubber hits the road when organizations begin to discuss control and ownership. In an affiliate model, the parent organization is the owner legally. However, NNCC and PHMC leadership came to an agreement that there should be an exit clause in the affiliation agreement should the partnership not work out. NNCC affiliated in 2002 and has seen tremendous growth for its organization as well as

been able to help transform how primary care is delivered in the U.S. and raised more than 300 million on behalf of its members nationally. The affiliation model was key to its success in focusing on its true mission.

The Joseph J. Peters Institute (JJPI): Richard Cohen and the PHMC board chair, Judge Renee Hughes, were both on the board of JJPI. As Richard Cohen often says, patience pays off, and over a five-year period discussing the possibility of becoming an affiliate. Both the Office of Mental Health and the Office of Community Behavioral Health were supportive of the affiliation, which happened in 2004.

Metropolitan Career Services/Computer Technology Institute (MCC): MCC, one of the region's most respected workforce and associate degree programs, affiliated with PHMC in 2011. The affiliation came about through a relationship between the former executive director and Richard Cohen. The executive director was very well aware that the organization would need to close its doors without the support of an organization like PHMC. At this time, PHMC is in the process of turning the organization around, adding degrees such as allied health as well as growing the workforce programs.

**Take-Home Points about the PHMC  
Affiliation Model:**

**Take-Home Points about the PHMC**

# Affiliation Model:

As with all partnerships, relationships built on trust are critical to success. Some of these relationships take years to build, so patience is key. The affiliation process can be taxing on the staff of both organizations, so it's important that the leadership be serious about affiliation. In PHMC's case, its affiliation focus tends to be on organizations that have annual budgets of \$3 million or more. The process usually starts with the leadership of both organizations connecting and taking a joint leap of faith that a strategic alliance is the right way to go based on a substantial and thorough due diligence process. Mission alignment is critical, and so is the leadership of the partner organization. As critical as mission is, so is the belief that a partnership will increase opportunities to assist in preserving critical community assets and extend programs offered by both organizations. The enhancing of financial stability and creation of economies of scale, particularly in administration and infrastructure, are equally critical. Finally, career advancement opportunities are also relevant to keeping nonprofit organizational talent.

Outside agencies such as local government and foundations can play an important role in the affiliation process, from encouraging nonprofits to affiliate or merge to investing critical juncture funding to support the due diligence and implementation phases of the affiliation.

One misconception is that an affiliation is usually cheaper operationally. However, that is not necessarily true, although PHMC can demonstrate that to date all of the affiliate organizations through a PHMC partnership have been able to drive down overhead costs over time through creating economies of scale. PHMC has been appreciative over the years of the past support of local government agencies in supporting and encouraging affiliations, as well as of funders like The Philadelphia Foundation, United Way and the Independence Foundation that provided critical juncture funding. More of this kind of leadership is needed to encourage more of these strategic partnerships.

## **Affiliate Program Profiles in Order of Year of Affiliation:**

Interim House: Interim House is a corporation licensed by the Commonwealth of Pennsylvania's Bureau of Drug and Alcohol Programs. Interim House provides a continuum of comprehensive services to women addicted to drugs and alcohol that includes three levels of care: residential treatment, intensive outpatient treatment, and outpatient counseling. Incorporated in 1971, Interim House was the first such specialized program in the Commonwealth of Pennsylvania and one of the first in the nation. It has served as a model for innovative treatment of substance-abusing women. Interim House utilizes a holistic approach to treating drug and alcohol addiction that is trauma-

sensitive, focusing on the physical, mental, emotional and spiritual issues surrounding addiction. Interim House offers a wide range of therapeutic and support services to clients, with an emphasis on: preventing relapse; establishing stability and responsibility; improving life and parenting skills; developing and strengthening a support system; and establishing links to support services.

The Bridge: Since 1971, The Bridge has helped over 10,000 people challenged by addictions. The primary goal of The Bridge is to provide quality, accessible treatment while preparing clients to re-enter their communities as drug- and alcohol-free members of society. The Bridge is a subsidiary organization of PHMC. The Bridge understands that individuals who have become dependent on alcohol and/or other drugs usually experience many other problems. Our treatment philosophy stresses a holistic approach; interventions focus on treating the addiction, its underlying causes and related dysfunctions.

The Bridge offers a range of services designed to meet the needs of persons of all ages with addiction-related issues. The program serves adolescents from neighborhoods throughout Philadelphia, the suburban counties and the state of Delaware. The Bridge offers long- and short-term residential programs for up to 38 adolescents and outpatient counseling for children, adolescents and adults. Individualized treatment plans are created to meet clients' needs and clients have access to

the comprehensive addiction, mental health, educational and life skills services provided at The Bridge.

The Health Promotion Council & Resources for Children's Health (RCH): HPC is a nonprofit corporation organized in 1981. HPC's mission is to promote health and prevent and manage chronic diseases, especially among vulnerable populations, through community-based outreach, education and advocacy. Its unique programs advocating positive health behaviors, together with its innovative work with minority groups, have advanced the field of health promotion in southeastern Pennsylvania and across the nation. As part of its mission to promote health and provide outreach and education, Health Promotion Council conducts family support and healthy parenting education programs. These include its Health Intervention Program and Focus on Families, formerly available through RCH. HPC has a diverse, multicultural, multilingual staff and fulfills its mission through programs in four major areas: chronic disease risk reduction; chronic disease prevention and management; community and capacity building; and professional education and consulting.

The National Nursing Centers Consortium: NNCC is the leading advocate for nurse-managed health care. NNCC is a nonprofit corporation whose mission is to strengthen the capacity, growth and development of nurse-managed health centers, provide quality care to vulnerable populations and eliminate health disparities in

underserved communities. Founded in 1996, NNCC joined Public Health Management Corporation in 2002. NNCC advocates for accessible healthcare through using nurses as primary providers of healthcare. Our nurse-run member health centers provide community-based care that is sensitive to patient needs and concerns. NNCC works to improve policies for nurse practitioners as primary care providers, and also helps member health centers meet the costs of providing care to the uninsured and underinsured by taking the lead in developing and running programs in partnership with its member centers that help people lead healthier and safer lives. These programs help avert future health problems and keep healthcare costs from rising.

The Joseph J. Peters Institute: JJPI is a nonprofit mental health agency providing outpatient assessment and treatment services in the area of sexual abuse. JJPI's mission is to reduce the causes and overall results of sexually abusive behaviors through research, training, prevention and treatment. JJPI evaluates and treats survivors of sexual abuse as well as offenders. In addition, JJPI provides training to organizations throughout the region, holding a national reputation for its work in the assessment, treatment, prevention and education related to sexual abuse. Its research arm has received numerous grants from foundations such as the National Institutes of Health and the National Institute of Justice.

Metropolitan Career Center: MCC was launched in 1974

as a nonprofit workforce development organization established by the clergy and members of the First United Methodist Church of Germantown to help neighborhood youth and adults gain greater access to resources that could lead to better careers and higher education. Today, MCC and its nonprofit career school, the Computer Technology Institute (CTI), educate and train individuals who have limited access to resources, to connect them to employers and help meet the changing needs of the workforce. MCC and CTI encourage sustainable careers and economic independence by building a supportive learning environment in which students receive personalized attention. To further that mission, CTI, an approved and accredited training provider through the Department of Education and one of the few nonprofit secondary career schools in Pennsylvania, offers an associate degree in specialized technology and a diploma in health information technology.

## **Author Bios**

Recognized nationally as an authority in the public health management arena, president and CEO of PHMC Richard J. Cohen has led the organization since 1980. Dr. Cohen leads close to 1,400 employees, over 250 public health programs and approximately ten subsidiary organizations. Under his watch, the organization has expanded more than seventy-fivefold 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 a national level as well.

Tine Hansen-Turton is the chief strategy officer of PHMC, where she develops and supports PHMC's overall strategy and leads partnership development around new and emerging business opportunities. She works across the organization, but oversees Management Services and the Research & Evaluation Group. She also manages organizational development and learning, regional emergency preparedness services and mergers and affiliations, as well as the trade associations National Nursing Centers Consortium and Convenient Care Association. She is nationally known for her development and policy systems-change work with nurse-led care and for expanding access to care for millions through retail clinics.