

EVOLVING MODELS OF FEDERATION-AGENCY COOPERATION

JEFFREY R. SOLOMON, PH.D.

Executive Director and Chief Operation Officer, Program Services, UJA-Federation of New York, Inc.

The current covenant between agencies and federations, which is based on deficit financing from the federation, should be changed to a value-added model, which enables both partners in the covenant to meet service delivery challenges more effectively. This new model is based on three principles: federation-agency affiliation is not necessarily forever, planning informs allocations, and the federation can be an aggressive service provider in behalf of the agencies. Such services include health insurance, group purchasing, training, research, and management assistance.

The history of American Jewish communal service stands proud in the evolution of agencies meeting a broad range of common human needs under the auspices of local federations and benefiting from the UJA-federation campaigns. Never has as extensive a network of health, education, and human service entities been formed and molded through a voluntary system of affiliation.

As we approach the end of the century and the hundredth anniversary of this system, major changes in the worlds of both federations and agencies are resulting in substantial shifts in the nature and quality of the federation-agency relationship. This article draws primarily on New York's major shift in its covenant with agencies, following from a Strategic Plan review of the environment and the need for major revision. It suggests strategies that re-engineer the federation-agency relationship in recognition of those substantial changes. Many of the emerging models are relevant to communities of all sizes.

THE CHANGING FEDERATION-AGENCY RELATIONSHIP

Two primary approaches tend to mark the beginning of the federation-agency relationship. Depending upon community, agency, and federation, the relationship and its nature then emerge differently.

In many communities, Jewish health and

service agencies predated the founding of a community federation. These services tended to draw heavily from the communities' volunteer and philanthropic pool, generally with a mission to serve Jews in need. As the communities' size, needs, and sophistication grew, federations were founded, most often with the predecessor Jewish service agencies as key stakeholders in the founding process. These agencies gave up their unrestricted right to raise funds from the community for the assurance of an annual grant and participation in communal planning activities and in the community-recognized service delivery system.

In other communities, to meet additional communal needs, the federation would create new autonomous affiliated agencies, generally after an extensive communal planning process in which needs and existing resources would be analyzed and a determination to create a new agency would be made among a variety of planning options. These new agencies would be created as autonomous, independent 501c3 organizations, responsible solely to their boards of directors, with an affiliation relationship that assumed annual support in return for fealty of mission, fund-raising restrictions, and submission to communal priorities.

The hegemonic nature of the federation tended to create an environment in most communities in which the implicit power of the purse suggested its dominance in the re-

lationship. Federations would assume powers beyond those of traditional funders. Often, they would retain the auditors and attorneys for those agencies, creating a conceptual conflict between the firms' responsibility to the board of those agencies and to the federation. They would have formal or informal veto rights in the selection of an executive director/chief professional officer. Often, the selection of a chief volunteer officer underwent federation review before emerging from agency nominating committee processes. In some communities where collective bargaining agreements existed, the federation would be at the table negotiating in behalf of autonomous agencies with unions representing those agencies' employees.

Much of this power was taken as a result of assumptions relating to the agencies' budgetary structure. Agencies would develop budgets that would generate deficits. The federation would review and certify those budgets and would then use its grant to meet the agency's deficit. At the heart of the relationship was the concept of deficit financing by the federation. Further, federations often undertook responsibility for the necessary capital fund raising for the agency, as well as the development of endowment support. The federation often served as the key referral source of board members and provided community sanction.

Two substantial changes have taken place in the nature of federations and agencies that underscore the need for change. First, the very power of the federation fund-raising machine that dominated American philanthropy beginning in the 1940s is under grave threat. Its success in the past was related to six primary factors.

1. The Jewish community was affluent.
2. People woke up in the morning feeling a self-identity as Jews.
3. There was universal Jewish insecurity as a result of events overseas and anti-Semitism that was often disguised as university quotas and corporate glass ceilings.

4. American Jews viscerally identified with nation building in Israel and saw the UJA-federation campaign as the primary vehicle to assist in that heroic effort.
5. Jews had a history and understanding of making a single gift and letting community leaders determine how that gift should be split among competing communal needs.
6. There was little competition with federation fund raising. The great American arts and cultural institutions, universities, and health care institutions drew little on Jewish philanthropy as they did not wish Jews to sit on their governing boards.

With the exception of affluence, each of the other factors no longer holds true in terms of the Jewish philanthropic market. On an inflation-adjusted basis, using current dollars, federation campaigns have been on the decline for some time, with notable periods of exception, such as the recently completed Operation Exodus and those times of war when Israel's very existence was at risk.

From the agencies' perspective the world too has changed. Although the short-term future portends a significant reversal, trends over the past three decades have been to make voluntary nonprofit agencies the partner of government in its effort to meet common human needs. The growth of government support to federation agencies has been astronomical. In each of the functional fields, with the notable exception of Jewish education, Jewish agencies have learned to apply for, receive, and use public funding for the benefit of the Jewish and general community. Although one can debate the nature of the change created by the acceptance of public funds by these historically sectarian services, it is clear that the number of units of services delivered to the Jewish community, as well as the general community, has increased dramatically as a result of the acceptance of this support.

These two factors, taken together, result in the diminishing of the hegemony of the

federation and suggest that federations must redefine their role, both in the nature and processes of grant making and in the development of products that can better serve the affiliated agencies as they approach service delivery challenges ahead.

VALUE-ADDED MODEL

After an extensive strategic planning process, UJA-Federation of New York redefined the basic covenant with its agencies and took a series of major steps toward a value-added model. This model, building upon a broad range of shared services that had been in place for many years, reconceptualizes the nature of the covenant between the federation and the agencies and begins to reposition the federation and the agencies in light of the previously noted environmental changes.

New York had been one of the two large city communities (of 18) that had a separate Communal Planning Committee and Distribution Committee. Substantial tension existed between the two committees as communal planning in an environment of flat or diminished resources tended to produce more heat than light. Distribution Committee members, faced with the annual daunting task of allocating precious resources, found communal planning recommendations, written in "absolute" terms, to be rather counterproductive. The Communal Planning Committee tended to focus on unmet communal needs and identified and documented these needs with recommendations for services to meet them. It did not focus on what services were "surplus" or less needed, as such services rarely surfaced. Consequently, in a zero-sum environment, the Distribution Committee found that funding the new emerging communal priorities without eliminating old needs was an impossible task. Further, annual UJA-Federation local allocations were approximately \$75 million of an aggregate agency budget in excess of \$4 billion including health care facilities or \$1 billion excluding those facilities. The "deficit" approach to

budgeting was in no way a conceptual reality. In 1940, the federation grant represented 50% of hospitals' budgets. In 1960, that grant represented 60% of the non-health care agencies' budgets. In 1993, these percentages were, respectively, a fraction of 1% and less than 7%.

In addition, the annual budget review became a choreographed ensemble that more resembled elementary school "show and tell" than a serious engagement between communal trustees acting in behalf of their sacred responsibility for the community. In these engagements, there was never time to focus on the core issues in not-for-profit agency life: mission, effectiveness, responsibility of governance, or vision. The reconceptualization into a Planning and Allocations Committee was one that permitted the step back needed to take a look at the objectives behind the planning and allocations functions. Among the principles that drove these changes were the following:

Federation-Agency Affiliation is Not Necessarily Forever.

Both the federation and the agencies must go through a formal reaffiliation process every four years that permits agency self-evaluation and self-assessment to elevate the debate into one of mission, vision, and the alignment of these factors with the mission of the federation. It moves the basic affiliation grant and the relationship to a healthier plane in which there are explicit understandings and mutually developed standards that govern the relationship. The affiliation grant then rises and falls with the campaign results and requires far less annual budgetary maintenance, enabling precious federation staff resources to be used for more valuable functions.

Planning Informs Allocations

The integrated planning function then has the ability to inform a second allocation process that focuses on targeted priorities. This allocation process is not agency-specific, but is driven by a request for proposals

that goes to all affiliated agencies (and potentially beyond affiliated agencies) to find the most qualified provider of service meeting those high-priority communal needs at the lowest price. Creating a competitive market-driven relationship between federation and the agencies better prepares the agencies for the vicissitudes of the new service delivery environment and, at the same time, repositions the federation from the protector of the agency status quo to the purchaser of service in behalf of communal needs.

These major changes have returned lay leadership to policymaking roles, removing them from micromanaging agencies without the basic tools needed to do so, and have refocused the federation lens to one of communal planner and intelligent funder.

Federation Has Become an Aggressive Service Provider

At the same time, the nature of the federation-agency relationship has changed as federation has become a more aggressive service provider in behalf of the agencies through the development of a variety of shared services and products aimed at providing synergy in using resources in a more effective way. Before these strategic changes, risk management, claims management, and insurance had always been centrally managed through a related corporation of the federation. Among the new developments in the 1990s that enhanced the cooperation between federation and its agencies were the following:

- *Multi-Employer Health Insurance:* Health insurance had been purchased on an agency-by-agency or agency consortium basis subject to collective bargaining in many of the agencies. After an extensive benefits study and using a point-of-service managed care model, the federation developed a multi-employer health insurance program that, in its first year, attracted 23 agencies offering direct savings in excess of \$4 million on \$21
- *Technology:* The explosion of information services in the general community provides an enormous opportunity to create seamlessness in the federation-agency network. In New York this is being attempted via MAVIN (Multi Agency Voice and Information Network), a computerized bulletin board system that enables a web of information sharing that radically transforms communications patterns. Federation camps for the elderly or disabled can provide on-line information about openings to social workers serving that population in different venues. Instant communication between the state capital public policy office and agencies allows for key information flow at moments of legislative debate. Budgets can be transmitted electronically and federation-agency communication can take place more efficiently and effectively through MAVIN. A subsidiary development was the need to provide agencies with more hardware than they previously had or obtained or for which they could budget. The federation, working through its traditional campaign divisions, is developing a used computer donation and distribution network that enhances the relationship and provides the agencies with the hardware necessary to access this information revolution.
- *Group Purchasing:* Although many federations, including New York, had historically been involved in group purchasing, this too was reconceptualized with the creation of FedVentures, a separately held corporation designed to view the agencies as consumers of products and services. Using a committed purchase model, FedVentures has extended its services to synagogues, day schools, and yeshivahs, thereby allowing the federation

million worth of premiums. As this system grows in size and sophistication, additional options exist, including a replication of the self-insurance/captive insurance model that the system has used in liability and property insurance.

to save the Jewish institutional network millions of dollars as a result of the enormous purchasing power of that network.

In the committed purchasing plan, each agency signs a commitment in which it agrees to purchasing via FedVentures master contracts if the price of the master contract is the same as or lower than previous paid amounts for these goods or services. Extensive research is completed to identify the nature of the agency's use of the goods and service, volume, delivery patterns, cash payment patterns, etc.

- *Training:* Training is seen as a superb opportunity for changing agency culture and transmitting new, end-century perspectives on age-old values. This has been achieved with two major initiatives. In conjunction with Columbia University School of Business Not for Profit Institute, UJA-Federation has developed a resource-rich, highly specialized Jewish communal management course for agency executives and subexecutives. In its fourth cycle, this has positioned the majority of non-health-care agency executives to better deal with the strategic and financial challenges facing their agencies. It has also provided them with a better understanding of overall communal imperatives and directions. Second, the ongoing training of the Wiener Education Center has been structured to meet specific strategic objectives. For example, in the current year, training is aimed at providing agency lay and professional leadership with the tools necessary to operate in an environment in which government is reinventing itself. Think tank presentations by major Washington figures, combined with values presentations and teaching of non-profit governance, exemplify the use of continuing professional education as a tool for restructuring the network in light of changing realities.
- *Fund Raising:* Increasingly, the total financial resource development approach of the federation provides opportunities

for new partnership with agencies. A Capital Development Fund has become the paradigm for this new partnership in that professional and lay leadership of this Fund understand agencies with a far greater depth than was previously the case. They are able to work with agencies in interpreting needs to donors and have been most successful in bringing new resources to bear on agency capital efforts. In the Planned Giving and Endowment area, many agencies have chosen to move the relationship into a formal purchase of service in which the agencies pay the federation a fee for Planned Giving and Endowment counsel, both through board training and specialized fund raising. These fees, in addition to permitting the federation to provide additional resources in this area, strengthen the partnership as a formal vendor relationship emerges. Finally, there have been interesting experiments with joint fund raising, i.e., fund raising that is event-driven with the proceeds shared by an agency and UJA-Federation. The model for this developed during Operation Exodus when the 92nd Street Y produced a gala concert with the proceeds divided between the Y (for its refugee resettlement services) and the general Operation Exodus campaign.

- *Real Estate:* As a result of the development of capital campaigning and the major investment in building and renovating the capital structures of the agency network, the decision was made to position the federation as a serious real estate developer/advisor. Professional real estate talent was brought to the federation to serve as the agencies' real estate arm. This is a complex relationship as the federation, both in recognition of the agencies' absolute autonomy and in its desire to limit liability, requires the agencies' real estate relationship to be one built on mutual trust and mutual benefit. The community has been well served by this real estate function, which followed from the development of capital campaign

guidelines that were designed to avoid the problems generated by earlier projects that were seriously undercapitalized and created crises for their sponsoring agencies and the general community.

- *Management Assistance Program:* Already in its eleventh year, a formal Management Assistance Program provides pro bono expertise in specific areas to Jewish communal agencies with especial emphasis on the federation agencies. In this effort, the Management Assistance Program staff work with agencies to define a consulting engagement, clarify objectives, and develop a contract that outlines the engagement. The program then recruits appropriate pro bono volunteers from the industry in which the expertise is being sought. This program has been recently expanded as part of the Jewish continuity initiative of the federation. Ten synagogues are undergoing serious strategic planning as part of a transformational effort using pro bono assistance from McKinsey & Co., a major management consulting firm (see the article by John Ruskay in this issue). This formal strategic planning process is viewed by the participating synagogues as a major benefit to their operations, and it has been universally acclaimed. Its genesis is in the strategic objective of taking the non-grant-making programs of the federation and expanding them to institutions of the Jewish community beyond the affiliated agency system.
- *Research:* In today's information-driven economy, agencies must be better positioned to respond to market forces. To that end, the federation has an office devoted to research. In addition to conducting the community's population studies, this department provides general population research, evaluation research, and planning resource development for both UJA-Federation and its agencies.
- *Public Policy:* As with many federations, New York has had a long-standing Government Relations Department serv-

ing two important functions: sound public policy development and "industry" representation with regard to public funding of agencies. In recent years, as with the Planned Giving and Endowment efforts, agencies have been paying fees for this service as they recognize its value. Additionally, UJA-Federation has served as a convener for specialized lobbyist retention efforts in light of the many demands placed on the system.

- *Managed Care:* Finally, federation agencies are faced with the direct threat/opportunity of managed care in the caregiving environment. In addition to hospitals and nursing homes, agencies serving a variety of populations are being brought into a managed care network. In New York, the federation took an aggressive position in managed care by taking an equity position in Premier Preferred Care, a proprietary managed care organization owned by nine hospitals including the five federation hospitals. This relationship assisted in the positioning of ancillary health care agencies and is one of the initiatives that federation has taken in enabling its system to benefit from this change in the delivery of human services.

CONCLUSION

Never in the hundred-year history of the federation movement has such rapid and radical change been fostered upon federations and its agencies. The history of innovation and the quality and enormity of services provided suggest that substantial changes are necessary in the emerging relationship between federation and its agencies so they can be better positioned for the twenty-first century. Making change in successful organizations and relationships is much more difficult than making change during periods of failure. Continued success is dependent on the recognition of the need for change and on the ability of federations and agencies to adapt to this new environment.