

Finance Extra: Best-Managed Nonprofits

Family Service recognized for breaking down agencies' walls

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CRAIN'S DETROIT BUSINESS

For years, community mental health agencies belonging to the **Family Service Alliance for Southeastern Michigan** competed for clients and funding.

Finalist

But eventually, they concluded that funding shouldn't dictate their work — the community should.

For overcoming "turf wars," taking cost out of the community mental health system and improving client service, the Family Service Alliance was designated by the judges as a "special recognition" finalist in *Crain's* 2010 Best-Managed Nonprofit Contest.

As the economy began to sputter in 2005, the CEOs of **Oakland Family Services, Macomb Family Services Inc.** and Detroit-based **Family Service Inc.** began meeting monthly for lunches to talk about issues and opportunities for collaboration, "a slow dance," as Michael Earl, president and CEO of Oakland Family and managing partner of the alliance, calls it.

But there was some urgency behind the dance.

Foundations and regional groups called repeatedly for collaboration, and all of the agencies faced funding pressures — a reality that persists today.

Three of the four agencies have finances that are stressed to some degree, and one, Family Service, has a going concern paragraph in the audit opinion on its fiscal 2009 financial statements.

But the judges say the agencies are doing the right things, and their broad collaboration could be replicable among not only other community mental health agencies, but also other subsets of nonprofits.

"We had competed for decades, but it was necessary to change our model in the service of the communities we serve ... (and based on) the belief that the nonprofit sector needs to take a lead in solving the issues the region faces," Earl said.

As the agencies lowered their guard, opportunities emerged for collaboration in their backroom operations, pooling purchases, sharing best practices and for standardizing services in the interests of increasing the quality of the services they provided, he said. Deeply rooted in their communities, they decided against a merger.

Last year, Inkster-based **Starfish Family Services** joined the alliance.

Early on, the alliance pooled purchases of office equipment, shaving 15 percent off its combined costs.

It also adopted a common Web-based client management system that has eliminated paper files and enabled standardized billing, patient care documentation and sharing of data across the three or-

ganizations and their respective counties, at a lower, shared cost.

Jointly licensing the electronic medical record system and sharing the cost of a systems administrator is saving alliance members \$300,000 collectively on implementation and about \$50,000 each on the system administrator's salary.

Before adopting the system, the agencies wrote off 10 percent to 15 percent of their claims each year because they couldn't get the necessary paperwork processed in time, Earl said. With the Web-based system, they've reduced their claim losses to less than 5 percent, he said.

The group now is looking at pooling health care, and Starfish and Oakland Family began sharing a full-time child psychiatrist this fall.

The agencies' joint work and geographic reach have helped attract new grants and contracts.

United Way for Southeastern Michigan awarded \$960,000 for the year to the alliance to help run its Early Learning Communities program, which teaches early childhood development to nonprofessional caregivers with the goal of getting more children entering school

ready to learn. That grant followed a \$1.5 million grant United Way made two years ago to the alliance to improve access to services for families in Wayne, Oakland and Macomb counties.

More recently, Oakland Family Services secured a \$3 million, three-year contract under a new program to serve severely emotionally disturbed children in the county, thanks to assistance from Starfish. The county was impressed with the shared electronic record system for the alliance members and with Oakland Family tapping Starfish's expertise, Earl said.

By turning to Oakland Family and Macomb Family Services for help in diversifying to more private-pay mental health clients from government-pay clients, Starfish expects to bring in about \$200,000 in new revenue its first year.

And as the trust among them increases, the agencies learn from each other about all aspects of their businesses, sharing best practices and discovering unexpected areas for improvement, Earl said.

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