

# Nonprofits: Ensuring that bigger **is better**

*The federation structure remains a viable model for nonprofit organizations—if managements transform themselves and affiliates collaborate more closely.*

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**Of the 20 largest** nonprofit organizations in the United States, 16 operate within a structure that is rare outside the nonprofit world: the federation. A federation is a network of local affiliates that share a mission, a brand, and a program model but are legally independent of one another and of the national office.<sup>1</sup> Many of the best-known nonprofits—from venerable organizations such as the National Council of YMCAs and the Girl Scouts of the USA to relative newcomers like Habitat for Humanity International and the Make-A-Wish Foundation—operate as federations (Exhibit 1, on the next page).

Federations don’t always work as they should, however, and some of them have run into trouble. Donors—public and private—are giving less and becoming more mobile, and this has promoted intense competition for money among affiliates. Donors are also making more demands to see results, leaving federations with the difficult task of persuading vast networks of affiliates to agree on how to evaluate and improve their performance. Meanwhile, controversies at the United Way of America (a network of more than 1,400 local organizations that raise money to address community problems) and at American Red Cross Disaster Services have underscored the risk of sharing a brand that is only as trusted as the least trusted affiliate. In response to these pressures, some affiliates, such as the United Way of Metropolitan Chicago, have chosen to consolidate. Others have pondered leaving their federations altogether. Has the model outgrown its usefulness?

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<sup>1</sup> Affiliates are also known as chapters, members, or local offices.

We believe that while the structure of most federations is sound, their management must be overhauled. Federations can offer significant advantages to their affiliates, but if poorly managed they suffer from uneven performance among local organizations, costly administrative duplication, and cumbersome national offices that deliver insufficient value. For a federation to realize its potential, the national office must focus on supplying affiliates with four main benefits: a valuable national brand, a reliable system for measuring performance, shared administrative services, and coordinated fund-raising services. Stepping up a federation's game in these areas might require a delicate rebalancing of power between the national office and the affiliates, but any federation that succeeds will be more than the sum of its parts.

### Why federate?

Federations do have advantages. The federation structure is the nonprofits' response to the classic management tension between centralization and

#### EXHIBIT I

#### Meet the federations

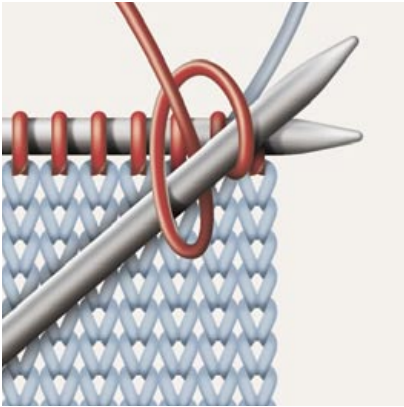


<sup>1</sup>United Way of America is not included in *Nonprofit Times Top 100*, as affiliates are counted separately; Make-A-Wish Foundation, founded in 1980, with 75 affiliates, ranks 82nd.

Source: *Nonprofit Times*, Nov 2003; Web sites of organizations



decentralization. It gives affiliates the autonomy to adapt their programs to meet community needs and to attract local resources—money, staff, volunteers, and board leadership—in a way that centralized national organizations find difficult to emulate. It also offers affiliates the benefits of national scale, which they otherwise wouldn't have, in areas such as branding and reputation building, fund-raising, administration, and advocacy. Federations, at their best, share their experience on what does and doesn't work with their affiliates and replicate successful programs across the country.



The model thus presents an interesting solution to the nonprofit sector's fragmentation. In the United States today, more than 1.3 million nonprofits (80 percent with budgets of less than \$100,000) are fighting to remain financially viable and to attract managerial expertise. Many address the same social needs: poverty, education, homelessness, environmental protection. Yet unlike the private sector, where mergers and acquisitions are commonplace, the nonprofit sector has no mechanism to help groups

consolidate. The federation structure is a way around that problem. Indeed, many of today's newest federations—such as the Make-A-Wish Foundation, which grants wishes to children with life-threatening medical conditions, and Social Venture Partners International (SVPI), a venture philanthropy organization that links the partners' time, money, and expertise with community nonprofits—were created when dozens of local or state programs decided to form a single national body. A federation can work only if local nonprofits are convinced that the gains of being affiliated to a larger organization outweigh the costs. And this depends on how well the federation is managed.

### **The effective federation**

Too few established federations give their affiliates sufficient value. In some cases, the national office's history of underperformance leaves affiliates skeptical about new efforts to share services or coordinate programs. In others, the affiliates' stubborn desire for independence makes them unwilling to collaborate on even the most sensible national initiatives. To help federations remain viable and to give small organizations reasons for joining them, their national offices must provide greater value in four core areas: brand management, performance measurement, shared services, and coordinated fund-raising. They might then persuade reluctant affiliates to collaborate more closely.

### Stronger brand management

A nationally recognized brand that communicates social impact and integrity is likely to be a federation's single most valuable asset, helping in everything from the recruitment of volunteers and staff to fund-raising. Habitat for Humanity, an organization committed to building

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affordable housing in partnership with people who lack adequate shelter, estimates that its brand is worth \$1.8 billion, roughly equal to the value of the Starbucks brand.<sup>2</sup> Glenn Permy, a senior

vice president of the Boys & Girls Clubs of America, says, "Our brand is the greatest asset we have, and we are extremely careful about protecting it. If affiliates don't meet our membership requirements, we take real steps to remove them from the family."

Often, however, federations don't fully grasp the importance of building brands and guarding their integrity. For many, organic growth and a lack of enforceable standards have undermined the brand. The result is a patchwork of branding messages: the logo and even the organization's name can vary by affiliate—an approach that is often risky. In today's national media and fund-raising markets, the mishaps of a single affiliate can jeopardize the reputation and fund-raising prospects of an entire federation.

The role of the national office, then, is to define the brand and to communicate its attributes to donors and local communities, just as a for-profit company would. The national office should develop a culture in which everyone in the network strives to nurture and safeguard the brand—for example, by establishing and enforcing rigorous logo and naming standards.

A system of incentives can help. The national office of the Boys & Girls Clubs of America encourages affiliates to comply with its brand guidelines by offering a \$10,000 award to the local club with the best overall marketing and communications program. It also supports clubs with a "brand matters" tool kit (including logos and marketing guidelines) that is posted on the organization's national intranet site. Affiliates that don't comply risk losing their share of the almost \$110 million a year the national office distributes to local clubs.

In extreme cases, a federation might need to rebrand itself, as Rebuilding Together—the largest volunteer home-rehabilitation organization in the

<sup>2</sup>The brand's value was calculated as a function of the net present value of future earnings tied to fund-raising through the brand. See John A. Quelch and Nathalie Laidler, *Habitat for Humanity International: Brand Valuation*, Harvard Business School Publishing, Case Number 9-503-101, October 2003.

United States—did. Over a period of 15 years, it realized that its original brand, Christmas in April, had mutated among its 255 affiliates into 14 distinct brands. Although broadly popular, the name Christmas in April no longer worked for certain affiliates. A number of those in colder climates weren't able to sponsor events in April and therefore became known as Christmas in June; others found that Christmas lacked appeal for some community partners. Surveys also showed that the brand didn't convey the organization's year-round commitment to rehabilitating the living spaces of low-income home owners: in one survey, more than 50 percent of the respondents who recognized the brand thought that the organization gave holiday gifts to children.

An internal study showed that while most affiliates wanted to address community needs beyond home rehabilitation, they were reluctant to abandon the existing brand. Nonetheless, recognizing the need for a more unified one, the organization decided to give the national office a new name: Rebuilding Together. It encouraged, but didn't require, existing affiliates to use this either as their main brand or as a tagline. All new affiliates were required to adopt the new brand and to use the national logo in all correspondence and marketing.

Today almost all of the organization's affiliates call themselves Rebuilding Together. The rebranding helped the national office to raise an additional \$1.1 million in cash and in-kind contributions—which account for about 30 percent of the national office's budget—through expanded partnerships with The Home Depot and the National Football League. Affiliates too have raised more funds than they formerly did. While 5 percent of them left the federation because of the brand change, most of those that remained now feel the organization is better placed to communicate its unique value to donors, community partners, and service recipients.

#### Enhancing the performance of affiliates

Many federations have loose membership and performance standards that are hard to evaluate and almost impossible to enforce. Faced with a substandard affiliate, most federations have a choice of living with it or, as a last resort, revoking its charter. A well-run federation, by contrast, develops specific program and administrative standards that help it to review and benchmark the performance of its affiliates and to share best practices. One such federation is the Girl Scouts. To solve the problem of uneven performance among affiliates, the organization developed a tool that lets it evaluate each of them according to a range of criteria, including success in building and retaining a diverse membership. During the evaluations, which take place every four years and last two to three months, the national office works with an individual affiliate

to assess the strength of its program, its financial stability, and the level of satisfaction among stakeholders (including members, their families, and the community at large). The affiliate is rated on how consistently it has met, or shown progress toward meeting, the organization’s program and administrative standards. Sharing the performance data has enabled affiliates to compare themselves with their peers—something that hitherto only a few had managed to do systematically.

Since the introduction of this system, the Girl Scouts have reduced the number of underperforming affiliates and helped the stronger ones—which set standards for the rest—to grow. The 15 percent that fail to meet expectations receive “charters with qualifications” and are required to work closely with the national office to develop specific targets for improvement. Only after repeated failure to raise standards may an affiliate be asked to reassess its resources and merge with a neighboring affiliate.

In some federations, this type of reporting makes the managers of each affiliate more accountable to the central organization. It also gives the board objective insights into the strengths and weaknesses of affiliates—insights that might not be available from the executive director’s reports (Exhibit 2). Moreover, a formal performance-management system promotes better management of knowledge: as standards are enforced, clear program and administrative best practices emerge and can be shared among affiliates.

EXHIBIT 2

**Keeping score**

Disguised example of affiliate’s performance scorecard

Category	Selected metrics	1998	1999	2000	2001	2002
Growth	Program growth	Average	Worst	Worst	Worst	Worst
	Support, revenues	Worst	Worst	Worst	Average	Average
Stability, liquidity	Operating reserves	Worst	Worst	Worst	Average	Best
Efficiency	Expenses <sup>1</sup> Total	Average	Worst	Best	Best	Best
	Management	Average	Average	Best	Best	Best
	Administrative	N/A	Best	Worst	Best	Average
	Fund-raising	N/A	Worst	Best	Average	Best

Performance of affiliate vs federation average  
■ Best    ■ Average    ■ Worst

<sup>1</sup>Total = total expenses ÷ (support + revenues); management = management expenses ÷ (support + revenues); administrative = (management expenses + fund-raising expenses) ÷ (support + revenues); fund-raising = fund-raising expenses ÷ (support + revenues).

Both Habitat for Humanity and SVPI have invested in initiatives that help their affiliates share best practices at national conferences, through internal newsletters, and over their intranets.

Of course, a national performance-management system can be used not only to make affiliates answerable to the national office but also to hold the national office itself to account. The Girl Scouts' national office, for example, is reviewed annually by the organization's local councils, which assess, for example, its customer service and support to the affiliates on a range of topics, including publications, grants, program resources, and fund-raising.

#### Shared services

Few federations have taken full advantage of the economies of scale to be had in back-office functions such as finance, benefits, information technology, and purchasing. Quite the opposite: many are plagued by a costly duplication of effort. At a certain federation, the affiliates' persistent distrust of one another and of their national office's supposed centralizing tendencies has prevented the organization from realizing cost savings of up to \$150 million annually—equivalent to 25 to 35 percent of its combined administrative budget. In some cases, the national office provides shared services that affiliates don't use: one federation found that almost half of its affiliates ignored the Web-hosting and employee benefits services supplied by the national office (Exhibit 3, on the next page).

This failure to share services effectively must end if the federation structure is to deliver its full benefits. At the very least, most federations should share information technology systems, procurement in areas such as insurance and travel, and HR functions such as benefits and relocation assistance. Staff training, curriculum development, and publishing could also join the list. The national office doesn't have to finance these services on its own; indeed, getting affiliates to cover some of the development and operating costs gives them a role in creating a solution that meets their needs. Sharing such costs might also persuade affiliates to use the services.











IT is an area in which most federations have been particularly slow to act, mainly because of budget and staff constraints. But CityCares, a national federation with 30 affiliates that help people find opportunities to volunteer for social services, recently developed a shared IT platform that will enable its affiliates to improve the way they communicate with local volunteers while reducing their overall technology spending. In 2001, 12 affiliates contributed to the new software's development. The national office, with support from the Omidyar and W. K. Kellogg foundations, supplied the



## EXHIBIT 3

**Getting full value**

% of affiliates using shared services available at national level<sup>1</sup>

			<b>Financial savings opportunity</b>
Liability insurance <sup>2</sup>		100	Low
Marketing communications		100	High
Online fund-raising		100	Moderate
Direct mail		86	High
E-mail services		83	Low
General-liability programs		82	Low
Travel services		75	Moderate
Software development		49	High
Web hosting		49	Low
Employee benefit plans		47	High

<sup>1</sup>Disguised example; list shown is not exhaustive.

<sup>2</sup>Fiduciary liability and crime insurance.

rest of the money and plans to pay part of the affiliates' operating expenses. CityCares believes that the new technology will both let it manage a larger number of volunteers more efficiently and help the national office report its results to corporate partners and other funders.

Likewise, the United Way of Metropolitan Chicago recently centralized its finance, accounting, and development functions as part of an effort to consolidate 54 affiliates into 13 regional ones. The affiliates, driven by lower contributions at workplaces and by the need to reduce overhead, developed a plan to consolidate their back offices; administrative costs fell by 18 percent as a result. The consolidation has not only freed up money that can be channeled back to the community but also enabled the federation's staff to devote less time to administration and more to developing programs and to community outreach.

### Fund-raising

Many federations have complex financial relationships. Affiliates typically pay membership dues to the national office, which might share funds raised from national sources with affiliates. This arrangement is complicated by a lack of clarity around what counts as nationally raised money and by the persistent feeling of some affiliates that they give more than they get

from their national offices. Poor communication leads to turf battles, tense relationships between national and local staff, and the possible alienation of foundations and corporate partners.

Well-coordinated fund-raising can help the national office tap into elusive community support. Affiliates, in turn, can get access to national sources of revenue that would otherwise be out of reach. To make the system work, the federation must divide up responsibility for different types of donors (such as corporations, high-net-worth individuals, and foundations), draw up guidelines for the transfer or sharing of resources, create procedures to resolve conflicts, and institutionalize opportunities to share lessons and practices within the organization. All parties must be flexible enough to adjust to changed economic conditions. Typically, the national office owns relationships (such as developing major new donors) that require long-term or up-front investment. It might also undertake fund-raising activities that benefit from scale, such as direct mailing. The affiliates take responsibility for developing local, community-based relationships and should be free to experiment with new fund-raising ideas.

It was along these lines that the Make-A-Wish Foundation recently overhauled the way its national office and 75 affiliates coordinate fund-raising. The organization developed four rules for managing donors. First, affiliates will continue to own relationships with strictly local businesses. Second, the national office will centralize all direct mail to individual donors, in return keeping 20 percent of the net revenues and passing the rest to local affiliates according to their size and needs. Third, the national office will continue to maintain relationships with national companies that make substantial gifts in kind (American Airlines, for example, contributes travel) and will allocate such resources on the basis of the affiliates' individual needs. Fourth, the national office will maintain relationships with national companies located near any Make-A-Wish affiliate, keep 20 percent of their net contributions, and disburse the remainder to the local affiliate depending on the size of the contribution and the donor's preference. In return, Make-A-Wish rewards its affiliates with up to 20 percent of any contribution from such donors that affiliates refer to the national office.

### **Toward collaboration**

Responsibility for improving a federation's management should be shared equally between the national office and the affiliates. The role of the national office is to refocus its efforts and to deliver tangible value in four areas: branding, performance measurement, shared administrative services, and coordinated fund-raising. The affiliates should be willing to contribute their time and energy (and sometimes money) to collective efforts that

can't succeed without their participation. Affiliates must also collaborate to leverage the network's power. Not all of the benefits of affiliation stem from the national office. Peer-to-peer interaction—from the sharing of best practices to new program initiatives—is essential for getting the greatest possible benefit from the federation model.

Changing the way most federations work is more easily said than done. A federation's national office isn't like a corporate headquarters; it is a service center that coordinates marketing, the sharing of knowledge, and legislative advocacy. The chief executives of most federations have little control over affiliates and can't require them to take part in joint activities. Affiliates often bristle at the mere mention of greater collaboration, taking it to imply a national takeover. As the CEO of a local United Way put it, "We never want to become the McDonald's of the nonprofit world." Those executive directors, such as Betty Beene at the United Way, who have attempted to force the pace of change have invariably been rejected by the leaders of the most powerful affiliates.

Without the affiliates' support, federations can't develop new initiatives, no matter how well designed or important. Federations that have lost this support can move forward only by engaging in a dialogue to restore trust, by forging agreement on the need for more collaboration, and by identifying the best mix of new initiatives. Sooner or later, talk must give way to action, and the national office then has to give its affiliates value in a way that lives up to the federation's mandate. While such a leap might seem daunting, the potential benefits are too great to ignore. *Q*

The authors wish to thank April Chou, Amanda Eisel, and Ravi Rao.

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