I. BIG BROTHERS BIG SISTERS OF METRO CHICAGO

Big Brothers Big Sisters of Metro Chicago ($2m budget) Merges with Big Brothers Big Sisters of Lake County, Illinois ($570,000 budget) (2010)

Big Brothers Big Sisters of Metropolitan Chicago

Big Brothers Big Sisters of Lake County

Industry

Youth Mentoring

Mission

Empower at-risk youth by providing high-impact one-to-one mentoring that enables lifelong success.

Background

Big Brothers Big Sisters of Metropolitan Chicago (BBBS-MC) is a classic organizational turnaround, from a functionally insolvent organization in 2005 to one of the most celebrated and successful chapters in the Big Brothers Big Sisters system. From 2006 to 2010, BBBS-MC expanded in the metro area through three different mergers under the leadership of CEO Art Mollenhauer. In the last of these mergers, BBBS-MC acquired Big Brothers Big Sisters of Lake County, Illinois, (BBBS-LC) in 2010 through an asset transfer merger where both parties combined their operations to achieve greater efficiency and more effectiveness.

This merger resulted in substantial growth in client services and high performing customer metrics supported by a solid, diversified financial base. The highly engaged BBBS-MC board worked with and supported its CEO in his early decisions to invest the resources internally that were necessary to achieving the organization's merger goals.

BBBS-MC serves 1800 Chicagoland children ages 7 to 17 through a variety of outcomes-based programs utilizing individual mentor-mentee relationships. Founded in 1904 in New York City, Big Brothers chapters spread rapidly across urban America. Big Sisters followed in 1970, and the two organizations merged in 1977. The Chicago BBBS chapter was incorporated in 1967, becoming Big Brothers Big Sisters of Metropolitan Chicago in 1977.[42]

When BBBS-MC acquired BBBS of Lake County, Illinois, it completed the consolidation of the Chicago region, previously served by four independent BBBS organizations. In the first merger, in 2006, BBBS-MC acquired BBBS of Lake County, Indiana, which had become insolvent. In 2007, BBBS-MC assumed responsibility for the DuPage County chapter, in Chicago's western suburbs.

The merger was driven by local forces and leaders rather than by national imperatives. It became a model for consolidation in other BBBS metro regions.

Significance

A Turnaround Success and a Leadership Story

The BBBS-MC case serves as a notable example of turnaround management. In 2005, the Chicago organization was functionally insolvent, being supported by generous board members' credit cards and by BBBS America. The provider was leaderless and deficient in trained professional staff.

Between 2005 and 2015, the organizations' assets grew substantially and the sources of its funding multiplied. From a deficit and negative net asset position in 2005, BBBS-MC progressed to a positive fund balance and net asset standing. While two-thirds of its operations had been financed by government grants and the United Way of Metropolitan Chicago before 2006, less than 5 percent of its operating budget came from these revenue sources in 2015. A healthy diversified revenue structure reflects the expanded base from which the organization now draws support, including large individual donors, big events, and corporate and philanthropic sources.

In a period of national financial turmoil, BBBS-MC experienced consistent growth in revenues, scope of services, and corporate support.

BBBS Chicago: Ten Year Overview 2005-2015 (IRS #990)

FY Ending 6/30/2005		FY Ending 6/30/2015
Revenue	$1,346,000	$3,837,000
Expenditure	$1,475,000	$3,818,000
Difference	($ 128,000)	$19,000
Net Assets	($ 224,000)	$1,246,000

Arthur Mollenhauer, Chief Executive Officer of BBBS since 2006, is widely recognized inside and out of the BBBS system as the driving force behind the turnaround.

42. On federation structures see Maise O'Flanagan and Lynn Taliento, "Nonprofits: Ensuring That Bigger is Better," *McKinsey Quarterly* (May 2004).

Mollenhauer came to BBBS-MC following a business career with the health product firm Baxter International, Inc. He was an eight-year volunteer at BBBS Lake County and had served on its board. Acclaimed for being among the most thoughtful and proactive nonprofit leaders in Chicago, Mollenhauer proved well suited to the challenges that lay ahead. As one of his board leaders commented, “Art spoke a language to which his board responded: planning, growth, performance, and accountability.”

Fundamental to understanding this merger’s success is Mollenhauer’s strategic focus, which he applied to BBBS Metro Chicago through three successive stages of organization change:

- Stage One: Cleanup, stabilization, and turnaround, 2006–07
- Stage Two: Investment in capacity building, 2008–10
- Stage Three: Growth, expansion, and development, 2010–14

Stage One

Cleanup, stabilization, and turnaround

In 2005, the Chicago operation was stuck in a no growth, downward spiral. It served fewer than 400 children (perhaps closer to 100). As Mollenhauer observed: “Turnaround starts with vision and with mission.” The mission: to provide high-impact one-to-one mentoring services to at-risk children.

A turnaround process begins when leaders confront the brutal reality of their organization’s situation. Mollenhauer acknowledged that BBBS Metro Chicago was not doing its job. It had failed to develop a sustainable business model to support its mission.

Mollenhauer and his board operated on the premise that the key to growth was increased efficiency driven by more centralized operations. With multiple BBBS organizations run haphazardly throughout the Chicago region, growth opportunities were constrained. BBBS-MC Board Chair Mark A. Kaufman provided the vision for new growth, helping Mollenhauer and the board understand how to deliver more quality services on a small-scale basis. Soon, BBBS-MC began consolidating with the mergers of the Indiana and DuPage County chapters. These friendly acquisitions provided the impetus for further consolidation and service centralization, culminating with the asset transfer between Chicago and Lake County BBBS in 2010.

Stage Two

Investment in capacity building

Mollenhauer brought strategic planning discipline to BBBS-MC through a series of three-year plans with annual financial, operational, and program elements. Each department maintained responsibility for setting its own goals and for working with finance to craft a budget. The strategic plan defined where the organization wanted to be in three years.

Annual operating budgets were used to monitor and measure performance. Monthly scorecards coupled to bi-annual forecasting enabled managers and staff to ensure alignment and to measure progress.

If more at-risk children were to be served and served well, organizational capacity had to be expanded. Mollenhauer convinced his board as well as corporate and foundation investors to spend up front in order to get greater returns later. New staff was hired and new IT and software put in place. As BBBS-MC's Finance Committee Chair noted: "Together we bought into smart plans and smart investments."

Investments in people were crucial. The organization had relied on part-time staffers and now transitioned to a full-time professional staff. Staff would be charged with professionalizing the organization: recruiting and screening students and families; enlisting corporations to provide mentors, funds, and facilities; vetting volunteers; matching volunteer mentors and mentees. Programs would be delivered through multiple venues: schools, clubs, workplaces, and various community locations. To build this new delivery platform required BBBS-MC to increase its staff by 50 percent.

The success of BBBS is based on its safe, strong, and enduring 1:1 match between mentor and mentee. Mollenhauer worked with staff to build a customer-focused service model. Rather than simply measuring growth in number of clients, BBBS moved to client outcomes and to measurement of actual impact on youth, communities, and workforce (long-term success).

Pre-Merger

The merger plan was founded on the value proposition that "a unique opportunity [existed] to better serve more children …through an efficient regional entity driven by regional revenue opportunities." When successfully integrated, the merged organization would serve 25 percent more children and generate 30 percent more revenue. Growth projections figured in upfront costs and transition expenses. Two to five years would be needed to accomplish the operational changes.

Four partners provided the infrastructure necessary to convince the Lake County BBBS board that the merger would result in more mission. SeaChange Capital Partners of New York City, a firm that specializes in the nonprofit sector, provided financial and consulting support. Its funding was contingent on BBBS-MC's adherence to a disciplined three-year plan with operational and financial milestones. PricewaterhouseCoopers (PwC) consulting services advised the merger integration: 100 steps were specified along a timeline covering programs and operations (HR, finance, IT, etc.). PwC scheduling and operational assistance enabled the merger transaction to move quickly and smoothly. Jenner and Block provided pro bono legal assistance. Because Illinois has no statute of limitations on sexual abuse suits, BBBS-LC needed legal protection against long-term liability that might arise once assets transferred to BBBS-MC. Lawyers crafted a "tail" liability policy to insure against cases of past sexual misconduct. The policy was placed with the shell corporation that had been created during the asset transfer process. (It turned out to be needed.) For quality control and insurance purposes, the merger required that Lake County mentoring matches be reauthorized and mentor background checks performed.

The Chicago Community Trust became the fourth partner in the merger, providing a substantial infrastructure grant toward the end of the merger process. (Five foundations came together to support the merger's costs.) This grant helped finance IT support/upgrades and a new phone system, critical for operational efficiencies. BBBS also was able to automate its HR and donor -based systems.

Merger Process

For nearly a year, the two boards and their respective committees planned and reviewed the merger transaction in detail. The selling point was simply that a merger between the two groups would provide more mission: it would serve more children better on a financially more sustainable basis. This message was carried to both organizations' stakeholders, particularly corporate supporters who provided BBBS financial support, volunteers, meeting venues, and event sponsorships. Both boards carefully reviewed Lake County's revenue base (individual donors, United Way, foundations, major employers) to be assured that this base would be sustainable in the post-merger period. BBBS-MC cleanup notwithstanding, BBBS-LC was in a stronger financial position than Chicago. But by centralizing operations in one Chicago-based system, everyone would gain by serving more children more effectively to better outcomes.

Post-Merger

Stage Three

(Growth, expansion, and development)

The Chicago board approved the merger in July 2010, with full integration to be attained four months later. The respective boards differed in size (41 vs. 7) and committee structure. It was agreed that five Lake County board members would move to the MC board and that the Lake County board chair would sit on the MC executive committee. As a legacy gesture, a Lake County advisory board would be constituted to focus on Lake County.

There would be no layoffs. Lake County staffers would reapply for their positions or seek new ones that had been added in the process of expanding BBBS-MC. Jeremy Foster, CEO of BBBS-LC, transitioned to Senior Vice President of Development (the number two position) for BBBS-MC. "This merger was in the best interests of the organization, and the title really did not matter to me," Foster recalled. An MC board member called the staff integration "seamless."

It should be noted that the merger plan anticipated a one- to two-year lag before growth accelerated. In May 2012, two years following the merger, Mollenhauer gave the following progress report:[43.]

- Integration: Lake County (LC) assets transferred; employees and matches completed and senior staff integrated into the new organization.
- Program Growth: Expanded LC matches with 70 percent original LC matches clearing the rematching process.
- Board: Four LC and one addition join MC Board at $10,000 level. Added 3 new members post-merger with total give-and-get contributions exceeding $380,000.
- Financial Impact: Net positive financial impact from merger of a least $200,000 by end of FY 2012 through cost savings and new funding. Net position of cumulative merger impact in FY 2011-2013 forecasted to be $1,074,570 ($747,000 incremental revenues and $327,570 from costs savings).
- Quality Enhancement: Match enhanced engagement and match quality upgraded including a new logic model leading to expected outcomes and reduced caseload for match support specialists.

BBBS-MC's revenue increased from $2 million in 2010 (pre-merger) to $3 million in 2012 (with the merger adding $538,000) to almost $4 million by 2015. In the midst of the Great Recession, with charitable giving in decline, BBBS-MC achieved substantial revenue growth.

And revenue growth was augmented by revenue diversification. Prior to Mollenhauer's tenure, BBBS-MC had been dependent upon government grants and the United Way. In 2014 and 2015, the organization derived a quarter of its revenues from three large fund-raising events. Where corporations once sprinkled financial support on multiple BBBS activities, BBBS-MC now promoted larger celebrity events (golf outings, for example) and broader participation. Corporate sponsors welcomed the opportunity to invite major clients and suppliers to these events. By scaling up, BBBS successfully increased sponsor support.

Increased corporate involvement enabled BBBS-MC to serve more children, which, in turn, attracted more foundation and individual giving—approaching $1 million in 2015. To generate greater board support, BBBS-MC split its board into a fund-raising board and a governance board and doubled the annual board member give/get policy to $20,000 from $10,000 per board member. The organization also has taken advantage of partnering opportunities with nonprofits such as Boys and Girls Clubs of Chicago,

[43.] Big Brothers Big Sisters of Metro Chicago Merger Plan: Final Report to SeaChange Partners (BBBS-MC Internal Document, May 25, 2012).

generating $750,000 in new revenue. After achieving its Stage 3 target of growth and development, BBBS-MC has embarked on a capital campaign aimed at long-term sustainability.

The brand and reputation of BBBS-MC has been greatly enhanced since the 2010 merger. Growing individual and corporate financial support has resulted. The organization fulfills its mission through mentoring programs in which at-risk youth are matched with caring, screened, and trained volunteer mentors. Close supervision by a full-time trained staff member is part of each match. The logistics and monitoring of BBBS-MC's operations at schools, Boys and Girls Clubs, workplaces, and community sites were made possible through investments in platform systems and employees. An increased number of children are now being served through higher quality programs and services.

Outcome success and program quality oversight increased under the merger, as professional training expanded and the ratio of match support staff to mentor-mentee participants improved. Additionally, the culture of the post-merger BBBS-MC has been enhanced by centralization, professionalism, and staff and volunteer loyalty. The extent to which this culture was shaped by Art Mollenhauer indicates how crucial the CEO position can be to an organization undergoing merger.

Takeaways

Big Brothers Big Sisters of Metro Chicago's merger with Big Brothers Big Sisters of Lake County is a classic merger success story. But measuring merger success involves more than evaluating outcomes. It also requires an assessment of whether the organization, by choosing merger, picked the right strategy to accomplish its goals. For BBBS-MC, the merger was part of a long-term plan to pursue a turnaround built on stabilization, investment in capacity building, and growth. The overarching goal involved serving more children better through greater operational efficiencies and more revenue. The internal strategy required investments in capacity building. The external strategy involved consolidation and centralization through three mergers, culminating with the Lake County BBBS merger. Together, the design, execution, and implementation of these successful strategies enabled BBBS-MC to grow and prosper. Since the 2010 merger, the number of at-risk children served increased by 70 percent, from 1,050 to 1,800 in 2016.

Partners to this success include BBBS-MC board members, who shaped and invested in these strategies. The board chair helped fashion the key ingredient involving how to deliver more quality services on a small-scale basis through multiple venues (schools, clubs, workplaces, and community locations) and evaluate their effectiveness based on outcomes. One should view the case, then, with its interrelated parts: leadership, vision, strategy, strategy implementation, and outcomes.