

**Overview:**

Core business functions (finances, HR, fundraising, communications, and IT) in non-profits are under resourced, and have high levels of dissatisfaction reported even when performed by in-house paid staff, external consultants or pro bono professionals. The impacts of not finding better solutions to these back-office needs include:

- inefficiency and burnout;
- high staff turnover,
- cash flow crises,
- loss of funding,
- missed opportunities,
- diminished impact and threats to growth and sustainability.

At best, these are enormous distractions for leaders of small nonprofits. At worst, the lack of adequate back-office infrastructure is responsible for their ineffectiveness in achieving their mission and incalculable human and financial waste.

**Challenge:**

Local control and support are critical to small non-profit missions and their identities, yet small nonprofits need to find ways to be more efficient and to deliver more sophisticated business services like outcome evaluation at the same time. How do we do both—maintain strong grassroots identity and create a viable business model that covers costs?

**Potential Solution:**

SVP set out to explore supporting shared services in an effort to increase efficiencies around core non-profit infrastructure, including: IT, fund development, finance/bookkeeping, communications/marketing, administration, impact measurement etc.

**Actions Taken:**

To date the SVP Scaling Committee has:

- Completed a needs assessment with 13 of our investees
- Done a preliminary review of best practices in the literature
- Met with Tides Canada to learn more about their approach to funding 'shared services'
- Spoken to large funders to survey the landscape for similar models to learn from.

**Key SVP Investee Findings:**

We conducted a needs analysis with the 13 NPOs in our portfolio. Our findings generally confirmed what the literature summarizes:

- General enthusiasm exists for receiving more support for core operations, but limited ability to contribute funding.
- The priority needs are communications and fundraising, however there is not clear focus on what kind of revenue development is prioritized (e.g. grants, individual donors, fee-for-service, etc.). IT is also a consistent priority.
- Primary motivation is to cut costs.
- There is complexity around hiring and control of services, especially for fundraising and communications

### For Consideration:

In reviewing the literature there were a number of warnings with regards to approaching shared services. Key factors for consideration are:

- Similar models exist in other organizations, with varied responses - **to claim any best practices at this point would be “magnifying ignorance.”**
- The benefits of nonprofit partners working more closely together are seen to be:
  - Gaining access to expertise/talent single organizations couldn't afford on their own;
  - Increased revenue potential; and
  - Realignment of human resources from administration to core activities.
- “The guiding principle for collaboration should be ‘more for the same’, not ‘the same for less’. ...Collaboration should be seen as a means to improve effectiveness and efficiency starting, at a minimum, with existing resources. **To be blunt, collaboration cannot be seen as a code word for ‘cost-cutting.’”<sup>1</sup>**
- Most nonprofits are chronically underspending on their infrastructure, and outsourcing back-office functions won't save money if you're not spending enough on them in the first place.
- Critical success factor: **“Spend time up-front clarifying expectations, assumptions and non-negotiables before committing to shared activities.”**

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<sup>1</sup> Beliefs about potential savings are often based on the assumption that consolidating services to a shared provider can lead to payroll savings for collaborating organizations. This model is often based on thinking grounded in the well-resourced private sector, and assumes that multiple full FTEs are being employed in the area under consideration for collaboration. Ironically, it may be the frugal and lean nature of many nonprofits that gets in the way of saving money through collaboration. The bulk of operating costs for most nonprofits are related to people – salaries and benefits – but the staffing model can be much more complex than in larger organizations. Delivery of human services and associated philanthropy are activities firmly founded in personal relationships, often stewarded over years. Shifting and re-establishing relationships has its own costs, some of which may be much more expensive and further reaching than any short-term cash savings.

- Routine repetitive process services (financial accounting and reporting, HR benefits administration, payroll) are the most widely available and affordable back office services for small nonprofits. **However, as the Meyer grantee survey report showed, the most readily available services are not always the ones grantees most need.** The real challenge is how to identify and provide services that will most enhance the impact of small organizations—such as fundraising strategy, long range financial planning, communications, and assistance with hiring and retaining excellent staff.
- Shared services, except in the context of fiscal sponsorship arrangements, appear extremely difficult to sustain. While all parties to share services arrangements “want the benefits of the shared resource, no one wants to run it, implement it, or have ownership of it.”<sup>2</sup>
- NPO ownership and autonomy are key factors in developing a successful model – it develops buy-in
- There is an almost endless combination of services, delivery models, pricing structures, market segments, etc. in the nonprofit outsourcing world.

### “Sharing” Models to Explore:

There exist a number of partnership models, and a continuum of governance models for review, with varying degrees of complexity and risk - here is an overview of a selection of partnership models:

- **Administrative Collaboration:** least formal, low risk, lowest financial impact – for example, achieving economies of scale by collaborating for a one-time event or short-term project;
- **Administrative Consolidation/Alliance:** more formal, typically longer term contractual provision of services by one partner to others to achieve savings by cutting costs – usually staff, as this is the single largest cost for nonprofit organizations;
- **External Service Provider(s):** group purchasing to achieve economies of scale, volume discounts, quality improvements or other benefits that arise from contracting with a third party common provider;

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<sup>2</sup> These arrangements fall apart on issues of “turf and personalities,” and on technical, legal, and psychological barriers—questions of who is in control, who owns the data, and of fairness in the allocation of the shared resource’s time and attention. Even when users in shared service arrangements enter with high trust, clear contracts, and great expectations, their energy for maintaining and governing the shared service arrangement seems to decay over time. As one well-informed and experienced provider of back-office services put it, “we hope the nonprofit sector will just skip this step of shared services and move to the better solution of outsourcing from the start.”

- **Management Service Organization:** cooperative investment in and/or commitment to purchasing through a specialized provider organization created by the partners to serve them, with the goal of decreasing costs and/or enhancing service delivery; and
- **Merger:** most formal, highest complexity, potential impacts on mission and branding; offers the greatest opportunity for positive financial impact over the long term.

**Key Questions:**

It is important for SVP to consider what our goal is in providing shared services - what is the value add that SVP brings here? Key questions regarding sustainability are:

- Are we funding these services indefinitely?
- If there is a fixed period of time that we are providing funding, how do we help NPOs achieve sustainability?

If we do not address these questions adequately there is a risk that we are simply providing stop-gap, and that the challenges will persist as soon as the funding is gone.

The other critical dimension is governance:

- What partnership model are we deploying?
- Who is ultimately the authority/decision-maker?
- Who is accountable for the outputs?
- Who is responsible to manage the service providers?

**Recommendations:**

The most common, and most empowering, form of involvement is general operating support or adequate core support in program grants.

1. Only intervene where markets fail. (Do an analysis of unmet needs and providers and only get involved in creating new delivery systems if necessary.)
2. Optimize client choice within a given model. (Preferred and sole-sourced provider services tend to reduce in quality and innovation when providers do not have to compete to get clients; for purposes of keeping appropriate boundaries between donors and grantees, it is also important that grantees exercise choice over the providers they use and have some control over what information gets shared back with the funder.)
3. Balance control by small nonprofit users with scale, cost and transaction efficiencies. (Maximizing grantee participation can add to overall cost, efficiency and work against scalable solutions.)

Further Resources:

NAME OF RESOURCE	NOTES	LINK
Collaboration 101 AN ANNOTATED BIBLIOGRAPHY	An annotated bibliography on research on collaboration models, including shared services	<a href="https://charityvillage.com/Content/92041/Collaboration_101.pdf">https://charityvillage.com/Content/92041/Collaboration_101.pdf</a>
Shared Services Alliances: Part 1 - 3 - 2010	SSIR articles about shared services models	<a href="http://ssir.org/articles/entry/creatively_combining_the_back_office_a_series_on_shared_service_alliances">http://ssir.org/articles/entry/creatively_combining_the_back_office_a_series_on_shared_service_alliances</a>
Vancouver Foundation Shared Services Study - 2010	Focused on HR services	<a href="https://www.vancouverfoundation.ca/sites/default/files/documents/FeasibilityStudyforSharedHRServicest_UCSCoop_Report.pdf">https://www.vancouverfoundation.ca/sites/default/files/documents/FeasibilityStudyforSharedHRServicest_UCSCoop_Report.pdf</a>
Shared Services: A Guide to Collaborative Solutions for Nonprofits Book - 2010	(full report available for purchase for \$54)	<a href="http://www.chfcanada.coop/eng/pdf/fedconf_2014/5.%20Shared%20Services%20a%20Guide%20to%20Creating%20Collaborative%20Solutions.pdf">http://www.chfcanada.coop/eng/pdf/fedconf_2014/5.%20Shared%20Services%20a%20Guide%20to%20Creating%20Collaborative%20Solutions.pdf</a>
Outsourcing Back-Office Services in Small Nonprofits: Pitfalls and Possibilities	50 page report, more academic in nature	<a href="http://earningcapacity.ca/files/NonprofitOutsourcing-Manage-Assist-Group.pdf">http://earningcapacity.ca/files/NonprofitOutsourcing-Manage-Assist-Group.pdf</a>
Thinking about sharing services? Don't assume it will save you money! - 2012	Article from Charity Village, local Vancouver authors	<a href="https://charityvillage.com/Content.aspx?topic=Thinking_about_sharing_services_Don_t_assume_it_will_save_you_money">https://charityvillage.com/Content.aspx?topic=Thinking_about_sharing_services_Don_t_assume_it_will_save_you_money</a>
Shared Services/Shared Solutions - 2007	Quick overview with links to further reading, a little dated (1999 - 2006)	<a href="http://maytree.com/fgi/shared-servicesshared-solutions.html">http://maytree.com/fgi/shared-servicesshared-solutions.html</a>