THE NONPROFIT CENTERS | NETWORK

RETHINKING OVERHEAD

DARING TO SHARE RESOURCES PREVIEW

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PREVIEW

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BY

CHELSEA DONOHOE
JACKIE CEFOLA

THE NONPROFIT CENTERS NETWORK
1536 Wynkoop St, Suite 103
Denver, CO 80202

www.nonprofitcenters.org
info@nonprofitcenters.org

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Organizations are formed to direct capacity and resources to achieve shared goals. For nonprofits, organizational activities and their associated expenses are typically described as either "mission-based" programs, services, or products or "overhead" management, accounting, human resources, marketing, information technology, insurance, fundraising, and other tasks that are not exclusively mission oriented.

Many donors and funders seek to support only mission-related activities and not general operating or overhead expenses. In this context, a low overhead ratio, overhead expenses as a percent of total expenses, is treated as the indicator of organizational success.

For many years leading organizations including Guidestar, Charity Navigator, and BBB Wise Giving Alliance have fought against the "overhead myth," the false notion that organizations' overhead and other financial ratios are proxies for effectiveness.

Despite these funding preferences, in reality every nonprofit organization must invest resources to access overhead services. When overhead services are not funded, organizations are forced to patch together access to accounting, human resources, and other critical operating functions by either tacking these responsibilities on to already full-time executive directors and staff, heavily relying on volunteers, or delaying access to services until the organization is in crisis. None of these strategies are sustainable in the long term and all set a dangerous standard of undervaluing and under-reporting the true costs of operating a nonprofit organization.

NCN is currently developing new financial modeling to help organizations budget for the true costs of overhead by estimating the expense or financial equivalency related to staff, contractors, and volunteers who provide overhead services.

Now more than ever, nonprofit leadership and funders must rethink their approach to overhead and consider shared services. Shared service solutions help to ensure that nonprofit organizations access high quality overhead services through sustainable means. New best practices for shared services are allowing organizations of all sizes and missions to receive the accounting, human resources, fundraising, and other services that they need to thrive.

WHAT ARE SHARED SERVICES?

Shared services build collaborative access to job functions among a network of participants who cross traditional organizational boundaries. Shared services can encompass many different relationships between the service provider and service recipient, including shared staffing, outsourcing, in-sourcing, shared contracting, and fiscal sponsorship. As Thaddeus Squire, Founder and Chief Commons Officer at CultureWorks Greater Philadelphia, describes in a recent blog article, shared services are "more about an intentional community of sharers than just someone looking for a cheaper, better, or fractional service." Intentionality and social purpose separates shared service models from more traditional forms of contracting and outsourcing.

Shared service strategies can be designed to provide participating organizations with:

- **Leadership training**
- **Accounting and financial management**
- **Human resources**
- **Information technology services**
- **Marketing**
- **Fundraising and grant writing**
- **Data collection**
- **Regulatory compliance support**

Because shared services require some level of collaboration and trust among participating partners, strategies often develop after organizations already have familiarity and experience working together through short-term programs or co-working spaces.

Services that are not customized specifically to suit an organization's mission have the potential to be shared.

Underlying all shared service strategies, there must be real financial or non-financial value generated for all participating organizations, service providers, and the communities served. Positive impacts for participating organizations often include increased ability to focus staff time on mission-related activities, operating efficiency, improved access to high quality services, and purchasing power. Shared service providers benefit from a larger customer base and better understanding of the nonprofit market. Communities benefit from new collaborations among participating organizations and heightened visibility for the nonprofit sector.

SHARED SERVICE STRATEGIES

Instead of going it alone, nonprofit leaders can employ a variety of shared service strategies and structures to access overhead services. Some of the most common shared services models include fiscal sponsorship, management service organizations, joint contracting, and centralized services.

Fiscal Sponsorship provides the legal structure and fiduciary responsibility for organizations that do not have tax-exempt status. Fiscally sponsored organizations rely on their sponsors to provide legal and financial and accounting services required for compliance with tax exemption. Sponsors may also provide more comprehensive services that include human resources, capacity building, leadership training, and other supplemental supports. Fiscally sponsored organizations vary by age, budget, mission, and activities. Fiscally sponsored organizations may be but are not necessarily in a stage of incubation or growth.

A **Management Service Organization (MSO)** is an organization that manages and provides a variety of overhead services to multiple other organizations with the goal of achieving more efficient and effective administrative function. The intention is to consolidate overhead service provision, reduce the unit costs of service delivery, and increase purchasing power for participating organizations. Organizations that receive services maintain their own tax-exempt status and staffing structures.

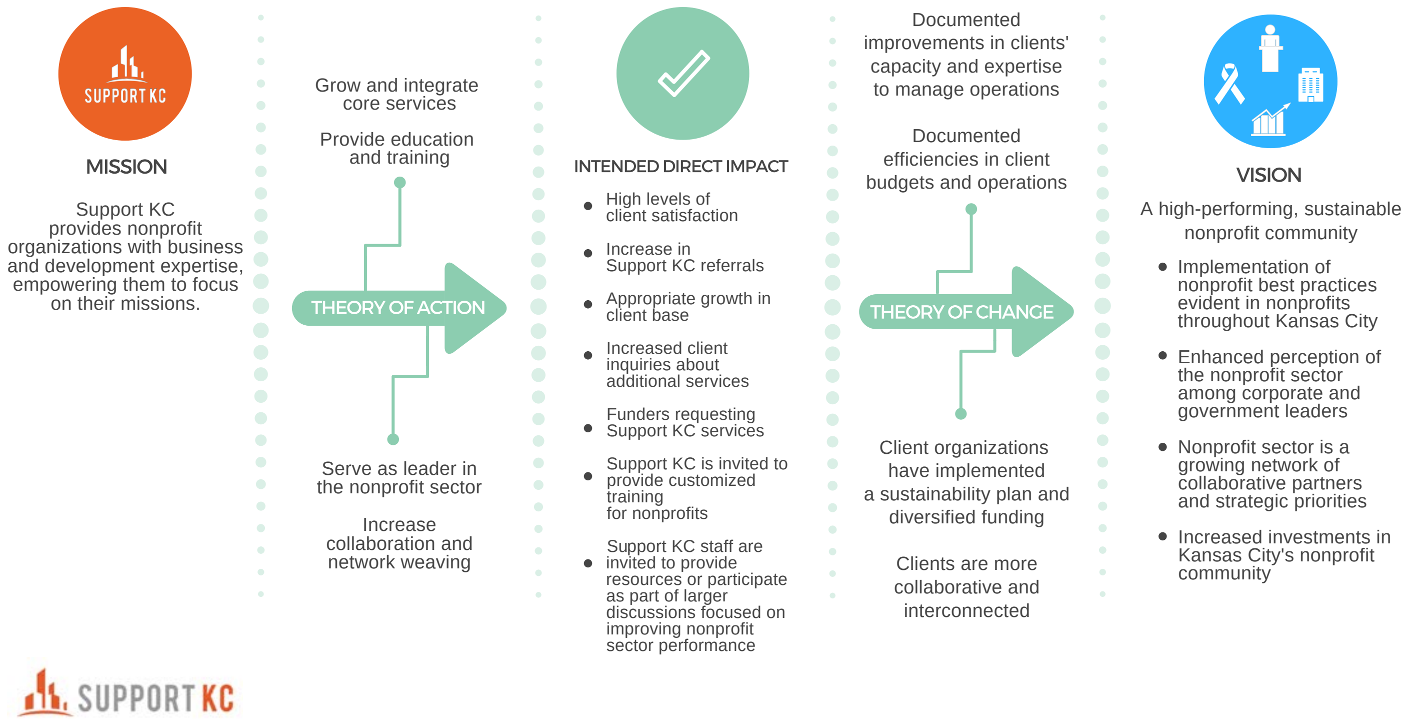
Joint Contracting involves two or more organizations designing a request for proposal, evaluating, and then contracting a service provider, often a for-profit service firm, sole practitioner, or a shared staff person. When collaborating to contract services, organizations build economies of scale to access higher quality service providers and increase the hours that leadership and staff spend on mission-related activities.

Centralized Shared Services involve a capacity building organization providing resources and tools to support shared services. These resources may include preferred provider lists, templates for service agreements, communication platforms, leadership training, or specific service-area training, for example, legal compliance or organizational assessment. Centralized shared services can be accessible to organizations that seek less collaboration and less commitment, allowing participants can opt in to the specific supports they seek for a short period of time. Often centralized shared services are the first steps towards joint contracting or other shared service solutions.

CASE STUDY OF AN MSO: SUPPORT KANSAS CITY

Support Kansas City, a 501c3 charitable organization based in Mission, Kansas, was founded in 2001 with the mission to provide nonprofit organizations with business and development expertise, empowering them to focus on their missions.

Support Kansas City's formation and development was driven by a prominent member of the funding community in Kansas City who recognized the need for organizations to improve financial reporting. As its first offering, Support Kansas City provided affordable, shared, accounting services. Over years of development, Support Kansas City has grown to provide 130 nonprofits not only with accounting services but also with database management, fund development planning, governance and strategy coaching, and other types of extensive training.



Theory of Change, Developed 2014

FUNDING MODEL

Support Kansas City was originally founded as a nonprofit that Kansas City funders would support until the organization became self-sufficient with expenses covered earned income from service fees. Later, the founder's successor, with the board and staff, determined that in order to keep services affordable, 85% of the budget would be covered by fees for services and 15% would be subsidized through community contributions.

As funders and the community better understood the value of Support Kansas City's services, the importance of capacity building, and the need for high quality operating systems, foundations offered continued funding. Support Kansas City is now able to offer services at fees that are not only below market but also below cost.

> *"There was a shift in thought. Funders began to see the impact we were making. They saw this was a successful model and that it was important to invest in Support Kansas City to be able to support more organizations." Debra Box, President and CEO, Support Kansas City*

THREE KEY WINS

Beginning in 2014, Support Kansas City was able to serve as the backbone organization for the Cultural Competency Collective of Greater Kansas City (CCCGKC) and Nonprofit Advocacy KC (ADCAP). Through these two initiatives, Support Kansas City is helping build the capacity of nonprofit organizations and increase their impact in the Kansas City Community.

Beginning in 2014, Support Kansas City created customized trainings to provide content and to strengthen the network of relationships among organizations and staff. In designing training content, Support Kansas City relies on close partnerships with clients and with other community organizations that offer complementing development work. Support Kansas City utilizes training as an opportunity to educate clients about their spectrum of shared services and to facilitate a network for peer learning.

Beginning in 2014, Support Kansas City was able to serve as the backbone organization for the Cultural Competency Collective of Greater Kansas City (CCCGKC), Nonprofit Advocacy KC (ADCAP) and, in 2017, Missouri Public Health Association (MPHA). Through these three initiatives, Support Kansas City is helping build the capacity for organizations who are promoting equity, inclusivity and diversity in the Kansas City Community.

THREE LESSONS LEARNED

Clients have many demands for time and attention. One of the toughest challenges as a shared service provider is requesting the initial time needed to work with the client to set appropriate expectations. It is important for clients to understand, from the beginning of the process, what successful shared services will look like within their own organizations. There also must be a way for clients to provide feedback to service providers to ensure their needs are met and the expectations for shared services are achieved.

> *"Leadership engagement is so important. It is critical to understand the time investment required to set expectations with organizational leaders and create a successful service delivery model for our clients."*
> *-Debra Box, President and CEO, Support Kansas City*

Support Kansas City strives to provide services that are accessible and impactful for local nonprofit organizations. At the same time, client organizations have varying needs and some clients come on board with the need for more services than their budget can support. It is critical to have an intake process that identifies the key needs of client organizations. It is also important to define the shared services pricing strategy and communicate it clearly so that clients are aware of what services are provided at what price.

Shared service providers need to be strategic in building their own organizational capacity and consider both the pipeline of local experts and the competing service providers. For example, Support Kansas City faced challenges attracting high quality talent given the other, often bigger, accounting firms in the area. Shared service providers need to think ahead about how to attract service providers and also how to nurture the pipeline for future service providers to ensure that clients' needs can be met.

THE NONPROFIT CENTERS | NETWORK

The Nonprofit Centers Network strives to support the development of collaborative strategies for resilient nonprofit infrastructure, including shared service solutions.

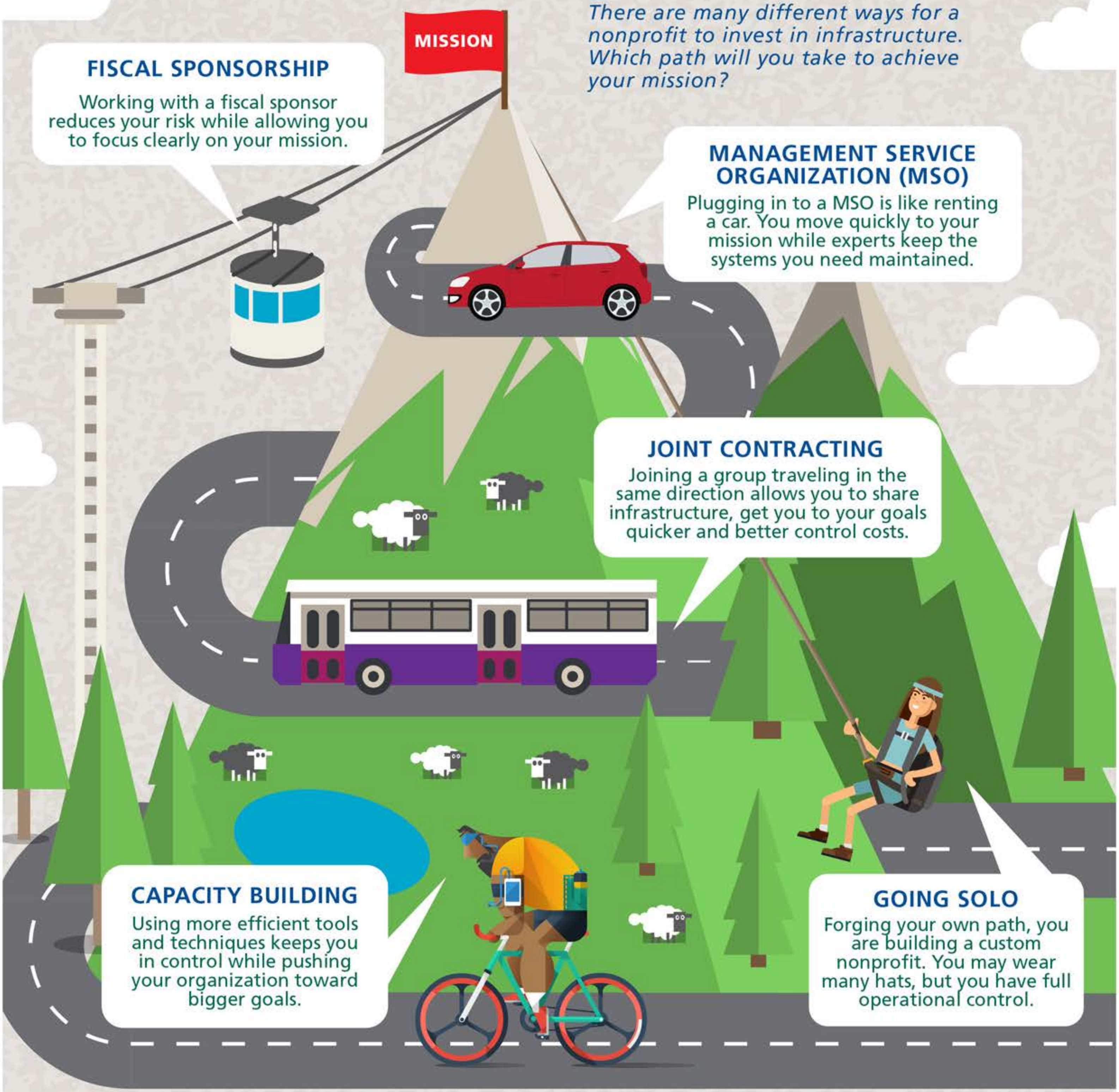
This document is a preview to our six-part Rethinking Overhead series, to be published in Spring 2019. Each part of the series will present shared service strategies, a case study with lessons learned, and discussion points to further conversations about shared services within your own organization.

Check out other shared service resources including NCN's consulting service offerings online at:

WWW.NONPROFITCENTERS.ORG

RETHINKING OVERHEAD

There are many different ways for a nonprofit to invest in infrastructure. Which path will you take to achieve your mission?



i For more information about collaborative solutions including strategies to rethink overhead, please see the Nonprofit Centers Network at www.nonprofitcenters.org

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