

THE NONPROFIT CENTERS | NETWORK

RETHINKING OVERHEAD

DARING TO SHARE RESOURCES
PREVIEW

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BY

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WHAT IS OVERHEAD?

Nonprofits typically consider their organizational activities and associated expenses to be either “mission-oriented” programs, services or products or “overhead.” Overhead includes management, accounting, human resources, marketing, information technology, insurance and fundraising.

The overhead ratio measures a nonprofit organization’s investment in mission activities vs. its investment in overhead. For many years, the overhead ratio has been used as a metric to determine a nonprofit organization’s effectiveness. Low overhead supposedly equals excellence. This is a myth: it is impossible for organizations to function effectively without overhead.

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.

Because it is challenging to find funding for overhead, many organizations are forced to either tack these responsibilities on to already full-time executive directors and staff, heavily rely on volunteers or delay access to services until the organization is in crisis. These strategies are not sustainable in the long term and set a dangerous standard of undervaluing and under-reporting the true costs of nonprofit operations.

Now more than ever, nonprofit leaders and funders must rethink overhead and find creative ways to access and share overhead services.

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.

WHAT ARE SHARED SERVICES?

Shared services are developed by two or more nonprofit organizations that collaborate to jointly access the time and expertise of contractors, employees or fiscal sponsors to create positive impacts for their operations and their communities.

Shared services leverage the economies of scale that are created when multiple organizations access services from the same service providers. Shared services also allow service providers and participating organizations to create positive impacts beyond the direct services provided:

- **Shared services strengthen a social purpose or community.**
- **Shared services build the organizational capacity of service recipients.**
- **Shared services foster trust and collaboration among service providers and service recipients. This often leads to a non-monetary exchange of resources or value.**
- **Shared services reduce the risks of participating organizations.**

Shared services help organizations to access:

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

Because of the complexity and trust involved, organizations often develop shared services after gaining familiarity and experience by working together through short-term programs or shared spaces.

SHARED SERVICE STRATEGIES

Shared services encompass many different structures, because each strategy is customized to create positive impacts for the service providers, participating organizations and their local communities.

In this Rethinking Overhead series, The Nonprofit Centers Network (NCN) highlights four shared services structures:

Fiscal Sponsorship - Fiscal sponsors are tax-exempt charitable nonprofit organizations that provide different legal, financial and administrative services to individuals or projects that do not have independent tax-exempt status but conduct charitable nonprofit activities that align with the sponsor's mission. Fiscal sponsors offer overhead services that are customized to meet their organization's mission, the needs of their projects and the needs of the local community.

A Management Service Organization (MSO) - A Management Service Organization (MSO) is an independent nonprofit organization that provides essential overhead services, systems, products and operational support to other nonprofit organizations. MSOs strive to provide a suite of high-quality overhead services to a large base of participating organizations through consolidating service provisions and reducing the costs of service delivery. Nonprofit organizations that receive services from an MSO maintain their tax-exempt status, governance, staffing structures and programmatic independence.

Joint Contracting - Joint Contracting involves two or more nonprofit organizations that collaborate to issue a shared request for services and contract a service provider. Alternatively, one organization may convene a cohort of organizations, with similar service needs, to establish a joint contract with a service provider. Jointly contracted services may be provided by private sector firms, individual consultants, public agencies or nonprofit organizations with a mission related to offering shared services. Joint contracting requires the development of a written agreement to describe the scope of work, timeline for completion, compensation and benefits, staffing model and other details that define how the work will be completed.

Connective Mechanisms - A growing number of organizations are developing and participating in connective mechanisms to share structured information and codify shared knowledge. These connective mechanisms are customized to suit the needs of participants and the communities they serve. Some examples include a listserv as a means for multiple organizations to share information with their communities or a shared service preferred provider list. By helping participants build knowledge and trust, these strategies can serve as the first steps towards more time and resource-intensive forms of shared services.

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.

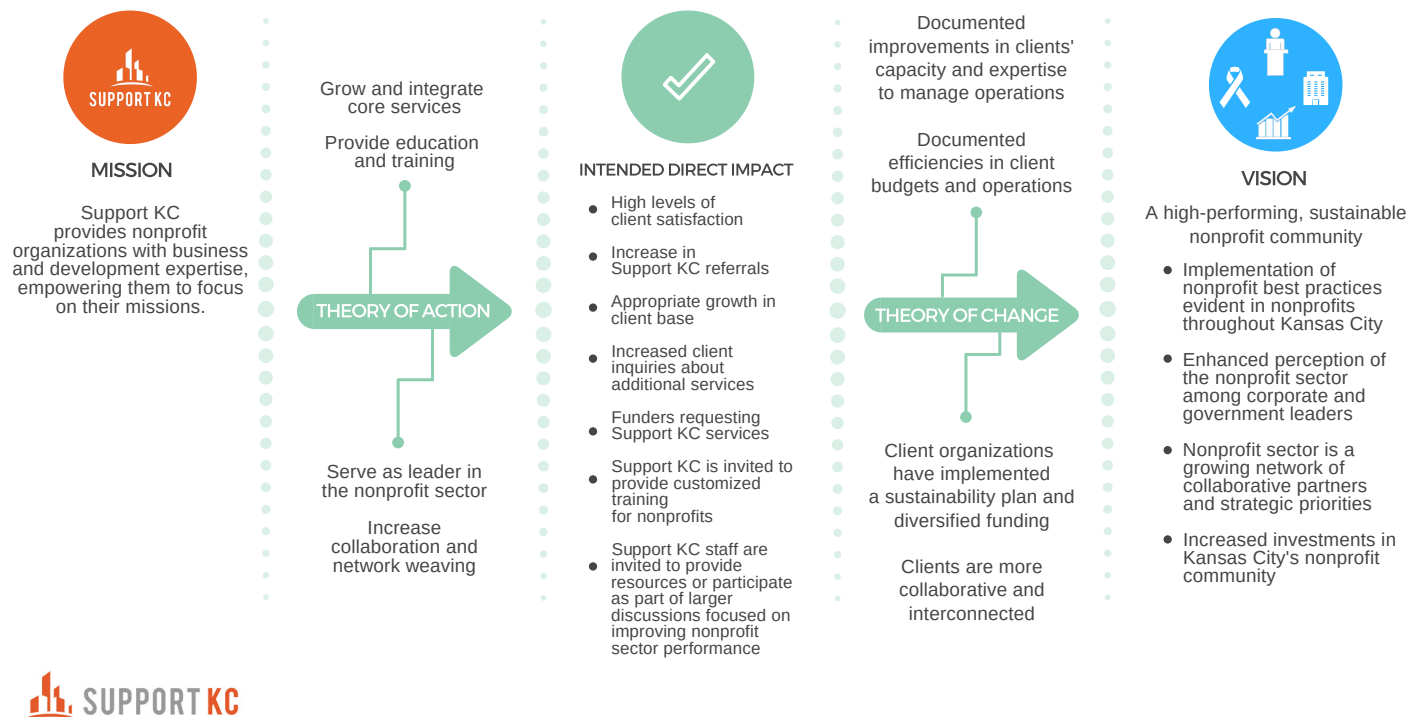
Support Kansas City's formation and development was driven by a prominent member of the funding community in Kansas City who recognized the need for organizations to improve financial reporting. As its first offering, Support Kansas City provided affordable, shared, accounting services. Over years of 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

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.

SUPPORT KANSAS CITY'S 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.

"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

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 FROM SUPPORT KANSAS CITY

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.

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.

"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

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 is a international peer-learning organization and the premier source for information about nonprofit shared spaces and shared services in the US and Canada. Based in Denver, Colorado, the network promotes best practices in the development of shared space and shared services through educational trainings, original research publications, gatherings and consulting services. The network is a fiscally sponsored project of TSNE MissionWorks, a 501(c)3 charitable organization based in Boston, Massachusetts.

For more information about The Nonprofit Centers Network, please see www.nonprofitcenters.org

This Preview provides an overview of our six-part Rethinking Overhead series, published in Spring 2019. Each section of the series presents a shared services strategy and case study with lessons learned. Rethinking Overhead also provides video interviews with the leaders of organizations that participate in shared services and discussion questions to further conversations about shared services within your own organization.

For more information and to purchase the Rethinking Overhead series, please see www.rethinkingoverhead.org.

RETHINKING OVERHEAD

FISCAL SPONSORSHIP

You become a project of a fiscal sponsor because your mission aligns and sponsorship provides the legal, financial and overhead infrastructure and services that you need to achieve your goals.

MISSION

There are many different ways for a nonprofit organization to invest in overhead services. Which path will create the greatest benefits for your organization and the community you serve?

MANAGEMENT SERVICE ORGANIZATION (MSO)

Plugging in to an MSO is like renting a car. You do the driving while the MSO provides and maintains high-quality overhead services, systems and support to keep you moving forward.

JOINT CONTRACTING

You share the ride with others and together build economies of scale and purchasing power by jointly choosing and contracting with a service provider.

GOING SOLO

Forging your own path, you choose not to share overhead services. You may still decide to outsource services with external service providers who support your journey and reduce your risks.

CONNECTIVE MECHANISMS

You are ready to actively share information, resources and expertise with others to collectively gain momentum and strengthen overhead services.



For more information about shared services and solutions to rethink overhead, please see www.rethinkingoverhead.org

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