

# RETHINKING OVERHEAD

THE NONPROFIT CENTERS  
NETWORK

## What are shared services?

Two or more nonprofit organizations create shared services by collaborating to jointly access the time and expertise of contractors, employees or fiscal sponsors to generate positive impacts for their operations and their communities.<sup>1</sup>

Shared services help organizations to access information technology, accounting, human resources, marketing, fundraising and other overhead services. Any service that is not uniquely designed to fulfill an organization's mission has the potential to be shared.

Because shared services require a high level of trust, strategies are often developed after participating organizations gain experience working together through collaborative programs or shared spaces.<sup>2</sup>

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:

- Connective mechanisms
- Management support organizations
- Joint contracting
- Fiscal sponsorship

These structures generate positive impacts that extend in scope beyond the service provided, including:<sup>3</sup>

1. Shared services strengthen a social purpose or community. For example:
  - Support KC, a management service organization (MSO), intentionally offers services to organizations serving the Kansas City Metro Area to create local impact.
  - Rainier Valley Corps (RVC) provides operations support services to partner organizations that are led by people of color and doing impactful work within communities of color.

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<sup>1</sup> Read more about this description of shared services in the “What Are Shared Services?” blog, available <https://www.nonprofitcenters.org/what-are-shared-services/>.

<sup>2</sup> In 2010, The Nonprofit Centers Network, with Tides, responded to the growing interest in shared services among nonprofit center leaders by publishing, “Shared Services: A Guide to Creating Collaborative Solutions for Nonprofits,” the first planning guide for developing new shared services, available for sale at [www.nonprofitcenters.org/research-and-publications/](http://www.nonprofitcenters.org/research-and-publications/). Building on this guide, Rethinking Overhead provides new and updated materials for a broader audience of nonprofit practitioners who want to share services.

<sup>3</sup> The Rethinking Overhead Case Studies provide detailed information about shared services provided by Support KC, Rainier Valley Corps, TSNE MissionWorks, CultureWorks Greater Philadelphia and the Metropolitan Alliance of Connected Communities.

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As described by Risa Wilkerson, Executive Director of Healthy Places by Design, an organization fiscally sponsored by TSNE MissionWorks (TSNE), “We love that TSNE MissionWorks has a philosophy that is [about] far more than transactional services. They are truly partners in social change. Their mission aligns with ours, they embody our organizational values of equity, integrity, collaboration and community.”<sup>4</sup>

2. Shared services build the organizational capacity of participating organizations. For example:
  - CultureWorks Greater Philadelphia provides members with services that include a 360-degree organizational assessment, discounts and preferred rates with a variety of service partners.
  - TSNE offers its new fiscally sponsored projects up to four hours of free consulting, and all projects receive free access to the Better Nonprofit Management training series.
  
3. Shared services foster trust and collaboration among service providers and participating organizations. This often leads to a non-monetary exchange of resources or value. For example:
  - Metropolitan Alliance of Connected Communities’ (MACC) members, who pay to subscribe to shared client data services, can also join a community of practice group that shares ideas, strengthens collaboration and facilitates peer learning.
  - RVC engages its partner organizations holistically. In addition to providing fiscal sponsorship services, it also offers mentorship and peer learning opportunities.
  
4. Shared services reduce the risks of participating organizations by shifting responsibilities to external service providers that utilize specialized and updated expertise and systems. This reduces reliance on staff members, who may otherwise provide services by multi-tasking with insufficient time, training or technology. For example:
  - MACC manages the increasingly complex compliance requirements of member organizations and reduces the risk of non-compliance.
  - TSNE reduces the risk of fiscally sponsored projects by providing a team of experts who offer high quality services and support.

## **What are the benefits of shared services for participating organizations, service providers and communities?**

Participating organizations benefit from:

- Access to high quality services and specialized expertise
- More time for leaders and staff members to focus on core competencies and mission-related activities

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<sup>4</sup> Watch Risa Wilkerson’s video interview for more information about her experiences with fiscal sponsorship, available at [https://youtu.be/Gr6\\_idgW2oE](https://youtu.be/Gr6_idgW2oE).

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- Greater organizational capacity through access to organizational assessments, consulting and training
- Increased trust and collaboration with service providers and other participating organizations
- Redundancy in systems and reduced risk

Shared services providers benefit from new efficiencies generated by working with multiple participating organizations that have similar needs for services. Earnings may increase, and sunk costs - such as technology, software or equipment - may be more easily recovered. Shared services providers may also benefit from the goodwill created by enabling participating organizations to better support their missions.

Communities also benefit from shared services. Participating organizations increase their impact by becoming more effective and efficient. Shared services often support connections and collaboration among participating organizations that result in the development of more innovative programs, services and solutions. Shared services also raise the visibility of the nonprofit sector and make it easier for more community members to get involved and stay engaged.

## What about the costs?

All shared services strategies leverage the economies of scale created when multiple participating organizations use the same service providers. As a result, some shared services may create cost savings. For example, Early Learning Ventures provides comprehensive back-office services for childcare providers including bulk buying discounts, staff training, payroll and human resources. In 2017, childcare providers using these shared services reported a reduction in costs by an average of \$22 per child served. The organizations also gained from a substantial increase in staff time spent on childcare services and not administrative tasks.<sup>5</sup>

Depending on the length of time considered, the previous service providers and the quality of their services, other shared services may be cost-neutral or create a modest increase in costs. For example, some organizations make do with occasional IT troubleshooting by volunteers. When they purchase shared information technology services with 24-7 user support, their immediate costs will increase. However, these shared services may create cost savings in the long run by allowing the boards to focus on mission-related activities and staffs to access support when needed.<sup>6</sup>

## Shared Services and the Overhead Myth

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<sup>5</sup> Early Learning Ventures provides estimates for the financial return on investment in its shared services at <https://www.earlylearningventures.org/investors/roi/>

<sup>6</sup> Detailed cost estimates are included in “Shared Services that Work: Surprise Findings from Charlotte-Mecklenburg Nonprofits,” available at [www.nonprofitcenters.org/find-shared-space/](http://www.nonprofitcenters.org/find-shared-space/)

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Shared services require the nonprofit sector and its funders to accept the necessity of overhead expenses.<sup>7</sup> For too long, many donors have equated a low overhead ratio (the ratio of a nonprofit's indirect costs to total costs) with nonprofit effectiveness. This oversimplification has led to rampant underinvestment in nonprofit infrastructure, overworked staff and volunteers and short-sighted choices.

Organizations that invest in shared services recognize that overhead functions are essential for organizational health and stability. Homer Jackson, Executive Director of the Philadelphia Jazz Project and member of CultureWorks, describes the importance of overhead and benefits of shared services, "At the end of the day, most of the people doing this work want to solve problems, make our communities better, make the environment...better, stronger, more efficient. If the foundations really want to see progress, then organizations like CultureWorks are a solution."<sup>8</sup>

Shared services bring in targeted supports for Executive Directors, who, contrary to popular belief, cannot be experts in all areas of nonprofit administration.<sup>9</sup>

## Potential Challenges to Adopting Shared Services<sup>10</sup>

Exploring the idea of shared services requires that nonprofits be open to change. As NCN works in communities to explore this idea, we hear many different areas of resistance, including:

- A lack of willingness to change current practices
- The belief that overhead services are not necessary or that high quality service is not required
- A lack of understanding of how the work is being done, as well as the time and money being spent
- No time to be proactive, collaborate with other organizations or vet potential service providers.
- No budget to pay external service providers
- When considering operations, leadership or board members fear relinquishing some autonomy and control.

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<sup>7</sup> Guidestar, BBB Wise Giving Alliance and Charity Navigator lead efforts to address the overhead myth and develop new overhead solutions, see <http://overheadmyth.com>

<sup>8</sup> Watch Homer Jackson's video interview for more information about his experiences as a member of CultureWorks Greater Philadelphia, available at <https://youtu.be/RRDKTsfLIWY>.

<sup>9</sup> Ananda Valenzuela, Managing Director of Rainier Valley Corps, writes about how "The Executive Director Job Is Impossible" but there are potential solutions, including fiscal sponsorship and external operations support, available at <https://rainiervalleycorps.org/2018/02/executive-director-job-impossible/>

<sup>10</sup> See the Rethinking Overhead Discussion Questions to facilitate discussions related to these challenges, available in each module.

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Fears about control and autonomy are further described by Thaddeus Squire of CultureWorks Greater Philadelphia, “The nonprofit sector is motivated by very deeply entrenched notions of what it means to do charitable work. There is a conflation between independence of mission, vision and work and independence of infrastructure. This leads to a misconception that [organizations that] participate in shared and collaborative infrastructure are not strong independent organizations.”<sup>11</sup>

Shared services challenge the norms by which many organizations have operated for years. Additionally, NCN has seen many sociological and psychological factors that come in to play in these discussions. This is particularly true in how some define success as growth or staff size.<sup>12</sup> In reality, an organization’s needs might be easily accomplished by a contracted specialist. For example, during a recent shared services feasibility study, NCN found that some small nonprofits needed as little as 1/8 Full Time Equivalent (FTE) to complete accounting and financial functions.<sup>13</sup>

## **Outsourcing and Shared Services: What is Outsourcing?**

Is shared services simply another term for outsourcing? The answer is complicated. As an emerging field with evolving terminology, nonprofit practitioners, academics and service providers use the term shared services in different ways.

For clarity, NCN defines outsourcing as one organization purchasing services from an external source.<sup>14</sup> To participate in shared services, nonprofit organizations must be willing to outsource. In other words, organizations - not board members, volunteers or employees - must be willing to work with service providers that are external to their organization to accomplish tasks.

With both outsourcing and shared services:

- Service providers are not employed by the organization as staff.
- Service providers have specialized functional expertise, technology and resources.
- Service providers may work with multiple organizations to provide similar job functions.
- Services can be on-going, long-term, short-term, project or event-based.
- Services can be local or virtual (online).
- Staff gain access to higher quality expertise and can devote more time to mission-related activities.

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<sup>11</sup> Read more about CultureWorks Philadelphia in the Rethinking Overhead case study available at <https://rethinkingoverhead.org/wp-content/uploads/2019/04/CultureWorks-Case-Study-Rethinking-Overhead.pdf>.

<sup>12</sup> For more information, download *Streamlining Social Good: Overcoming Barriers to Resource Sharing* from <https://www.nonprofitcenters.org/ssgreport/>

<sup>13</sup> Each organization will need to analyze its needs, as many factors increase the complexity of services needed, like managing government grants, fee for service income, etc.

<sup>14</sup> The Nonprofit Centers Network’s descriptions of the terms outsourcing and shared services are based on expertise and experience from working with our members and dozens of other organizations and their communities. These concepts will continue to evolve as more organizations engage in new shared services.

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Jitasa identifies as a shared service accounting provider for the nonprofit sector. Across the US, it offers bookkeeping, accounting and tax preparation to more than 500 nonprofit organizations of all sizes and service areas. Jitasa has the ability to invest in technology that its nonprofit clients would not be able to invest in on their own, because Jitasa collectively processes \$5 billion in transactions per year and invests with the mentality of a \$5 billion organization. In turn, clients see the results.

As described by Tony Haines, CEO and Scout Executive of Boy Scouts of America Andrew Jackson Council and client of Jitasa, “We realized we could save money and...[get] rid of back end services that we were doing but not doing very well... By eliminating the things that we did not do well, bookkeeping, data entry, fundraising data collection... that gave us the opportunity to focus all of our attention on the things that we do well, the program side...and the fundraising...”<sup>15</sup>

It is clear that Jitasa reduces risk for participating organizations, and they build the capacity of organizations that use its services. The other criteria that *Rethinking Overhead* uses to identify shared services are less apparent.

While others disagree, some members of NCN believe that there is a distinction between outsourcing and shared services. As more organizations participate in both outsourcing and shared services, these definitions will become more distinct. For now, NCN puts forth the four criteria for shared services: shared community or purpose, capacity building, trust and collaboration and redistribution of risk, as a starting point this continuing conversation.

## **Outsourcing in Action: Jitasa**

Jitasa’s mission is to improve the effectiveness and efficiency of nonprofit organizations.

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<sup>15</sup> Read more about Jitasa in the Rethinking Overhead case study and watch Tony Haines’ video interview for more information about his experiences as a Jitasa client, available at <https://youtu.be/EYIeewoL6Ns>.