Shared Services in the NGO Sector

This background paper was prepared for delegates at the NCOSS Shared Services Seminar on 10 November 2008.

Shared Services - the process by which organisations achieve economies of scale by jointly managing and/or delivering services - is a well developed practice in both the private and government sectors, and has taken place on a largely informal basis in the not for profit community sector [the sector] for many decades.

The general purpose of shared services in the private and government sectors is to streamline functions, which are usually spread across an organisation or a number of organisations, into one business unit. The aim is to achieve cost savings, improve access to services, and concentrate specialist skills to improve efficiency, effectiveness and sustainability.

However, in the sector this process has often been ad-hoc and the factors that promote success, and the systems required for effective implementation of shared service arrangements, have not been very well documented.

Shared services in the sector often refer to back-office functions such as finances, information and communications technology (ICT) and human resources management (HR) but may also include a wide range of other options such as joint service delivery or shared positions, resources, equipment and infrastructure (such as a bus).

The context of Shared Services for NGOs

There are a number of drivers for sharing services within the sector. These include:

- Pressure from some government funding agencies to achieve economies of scale within NGO programs. This is occurring within an environment where funding policies and practices do not meet the full costs (administration/ infrastructure costs) of service delivery.
- The related perception that government agencies prefer to fund larger organisations, which are seen to be more cost effective.
- The increasing contract and compliance costs faced by NGOs relative to their funding. This dynamic tends to force NGOs to seek ways to streamline their accountability requirements.
- The skill level required of employees to meet these increasing contract and compliance demands.
- The challenges of recruiting and retaining workers in the sector, particularly in a tight labour market when wages and conditions in the public and private sectors are far more attractive.
- The changing needs of clients and the desire to provide 'a wider, more coordinated and consistent range of services' (Cairns et al, 2003, 5).

Challenges affecting the development of shared services in the Sector

Dr. June Lennie (2007, p7-12) has identified a number of challenges that affect the development and implementation of shared service arrangements in the sector. These include:

- The underlying hesitation of some NGOs about entering such organisational relationships.
- The challenges of fostering staff (and community) ownership of a shared service initiative. Efforts to share services can be experienced as something happening to them, rather than a process they are actively engaged in.
- Any successful shared service arrangement requires a significant investment of time and effort.
- Capacity building of this nature can be costly, as are the initial set-up costs and, in the case of shared premises, the need to secure on-going funding
- Compatibility is essential and it may be difficult for disparate NGOs to develop a shared vision.
- The new systems of communication, management, administration and networking required to 'enable' shared service models can be more complex.
- There can be significant cultural differences between NGOs and skilled change management processes need to be in place.
- Conflict can easily arise and processes for dealing with differences are essential.
- When NGOs share any of their functions, the issues of privacy and confidentiality are highlighted.
- It can be difficult to market a new, integrated service as distinct from a smaller NGO already known within a community.

Models of Shared Services

There are a range of models for sharing services, each with benefits and limitations. These models include:

- Shared Services within an organisation
- Outsourcing to specialist provider
- Large/small NGO partnership
- Management Service Organisations or Shared Service Centres
- Peak body providing business centres
- Co-location and forming a company
- Other co-location models
- Umbrella organisation (Quasi amalgamation)
- Consortium/partnerships models
- Amalgamation or merger
- Group buying schemes

The key features of each model, their benefits and risks are summarised in the table below: (ACTCOSS, 2008; Cairns et al, 2003; Lawson, 2008; NCOSS, 2007, Walsh et al, 2006)

MODEL OF SHARED SERVICE	DESCRIPTION	BENEFITS	RISKS
Shared Services within an organisation	• Typically used in business – involves establishing a single unit to bring together functions previously carried out by separate units • Unusual in NGO sector as generally applicable to larger organisations.	• Standardization of systems • Consolidation of purchasing power • Concentration of specialist skills within organisation	• Potential loss of autonomy for separate programs or units within organisation • Central unit may be less responsive to needs of component programs or streams
Outsourcing to a Specialist provider	• Small NGO outsources its financial management, human resources (HR), Information and Communication Technology (ICT) roles to specialist services • NGO pays fixed fee per month	• Relieves NGO's staff of duties not part of core mandate. • Manager can focus on core business • Management reassured about back-office issues • Eases burden of compliance • Dependency on one individual removed • Access to more skilled personnel in key areas	• Typical bookkeeper or HR consultant may not have knowledge about NFP sector. • Costs may be too high • Potential loss of organisational control • Responsibility remains with NGO • May diminish overall capacity of organisation • Potential for double handling of information and processes
Large/Small NGO partnership	• Large NGO with own financial /administration/HR/ICT staff in same region offers to undertake small NGO's operations in these areas • Small NGO pays fixed rate for monthly services • Hourly rate paid for irregular service such as acquittals	• Reasonable fee for small NGO • Smaller NGO can access other resources. • Reduced management stress • Larger organisation may benefit from closer community connections, increased capacity, equipment	• Cultural seepage – values of larger organisation may dominate • Security of information, privacy • Competition for funding could affect viability of small NGO • 'Mission drift' for larger NGO – providing services takes it away from its core mission

MODEL OF SHARED SERVICE	DESCRIPTION	BENEFITS	RISKS
Management Service Organisations (MSO) or Shared Service Centres	• MSO service is usually a NFP • Created by group of NGOs to provide services • Board comprised of committee members of all participating organizations	• Staff can focus on core duties • Access to professional expertise • Decreased burden of keeping up with legislative changes • Decreased dependency on an individual	• Cost of establishing an MSO can be prohibitive • Additional time spent on new organisation may diminish benefits • Privacy, control, confidentiality may be harder to maintain • Tax benefits may not be available to MSO
Peak body providing business centres	• Peak body provides services to members (like an MSO would)	• Peaks already have relationships and access to range of organisations. • Peaks already provide services to members • Trust already established	• Not all organisations are members of peaks • Peaks may lose focus of core service/mission drift • Privacy, control, confidentiality
Co-location and forming a company	• Small group of NGOs running complementary but different programs within same region co-locate and form a consortium • May share premises only or a wide range of services • Formal agreement about role of each agency • Company to administer building • Building has facility manager, bookkeeper and administration staff • Hours of workers shared pro-rata • Company can negotiate shared purchases	• Cost savings • Staff do not have to worry about back-office functions • Streamlined processes • Focus on service delivery • Bookkeeping/HR/ICT support more accessible if they are on site • Facilitates better communication but conflict resolution processes need to be in place • Benefits clients – multiple services at one location • Reduces worker isolation and increases security • Risk transferred from small NGOs • Quality of premises may be improved.	• Company carries high risks - lease • Company vulnerable if one service loses funding • Important to ensure no insurance gaps • Some risk to clients: Are services compatible? Accessible? • Boundaries need to be clear • Clear processes and procedures needed • Existing relationships and power structures need to be understood • Cost of fit out of premises may be prohibitive

MODEL OF SHARED SERVICE	DESCRIPTION	BENEFITS	RISKS
Other co-location models	• A number of NGOs share a common premises and common resources and facilities such as book-keeping services, joint insurance and phone services • Model is known by various names, including: service cluster, service hub, one stop shop, and multi-tenant service centre • Formal agreements and other protocols used to clarify roles and responsibilities, governance, administrative arrangements, and policies and procedures • Can take many forms including the formation of a non-trading cooperative managed by a board, and the co-governance model	• Cost savings and economies of scale • Organisational and governance improvements • Seamless referral process • Improved service delivery and client access to services • Enhanced skills and capacity building for management and staff	• NGOs involved need to be complementary and have a similar client base • Significant time, energy and costs involved in planning and establishment of centres • Finding suitable premises can be problematic • Can be some effects on normal service delivery during the establishment phase • Relationships between service providers, staff and management committees need to be well managed • Cultural change towards cooperation and collaboration is often not an easy process
Umbrella organisation (Quasi amalgamation)	• Group of NGOs in region form umbrella organisation to handle all back office functions • Retain 'front of house' identities • Umbrella body employs administration manager • All funding flows through umbrella organisation which is employer, insurer, reporter • Each service has coordinator responsible for service delivery • Specialist positions shared e.g. psychologist	• Increase stability and viability for small NGOs • Stronger voice in funding negotiation • Staff focus on service delivery • Efficiencies of specialist staff • Best practice shared • Stable job for bookkeeper/ICT or HR specialist or professional • Consolidated committee can lead to better governance • Shared accountability and risks	• Small NGOs could feel identity threatened • Essential to clarify responsibilities of each party • Potential for gaps in insurance, risk management, OH&S • Risk if one partner loses funding • Risk if partners compete for funds • Privacy/confidentiality • Could lose organisational capacity

MODEL OF SHARED SERVICE	DESCRIPTION	BENEFITS	RISKS
Consortium/partnerships models	• Similar to Umbrella organisation – formal documented agreements about role of each agency. • No amalgamation or creation of another legal entity.	• Joint funding can be trialled without loss of autonomy. • Relationships can be built gradually.	• Efficiency gains may be reduced. • Fluid relationship may require greater effort to maintain.
Amalgamation or merger	• Organisations in similar or complementary fields join to form a single, larger organisation. • All administrative, management and governance functions consolidated. • Professional roles may also be consolidated.	• Sharing resources, skills, processes, expertise can provide range of efficiencies. • Improved quality of premises. • Improved services to the community if they are provided via a one stop shop • Stronger voice and increased profile for the need being addressed • Increase in voluntary income	• Loss of autonomy and identity. • Organisational values and culture clashes • Service may be less responsive and accessible for clients. • Most complex and difficult model to adopt • Can be very expensive in terms of the time, energy and human resources required
Group buying schemes	• A group of organisations combine to purchase goods and services (such as ICT support, cleaning services, stationery, vehicles) at more cost effective rates • Organisations can make joint agreement or contract a third party to purchase of their behalf.	• Reduced costs • Reduced transport/shipping costs • Decreased time spent on purchases • Greater bargaining power resulting in better contractual terms and conditions.	• Price creep – need to ensure savings are maintained • Quality of goods needs to be checked May affect relationships with local businesses

Benefits of all models

All models of shared service arrangements have potential benefits. These include:

- Improved governance and management processes
- Greater focus on direct services of NGOs and improved service delivery
- Greater savings/efficiencies
- Increased bargaining power

Risks in all models

However, there are also risks in any shared service arrangement. These include:

- Any changes to financial management may require approval of the funding bodies
- Any change will incur costs (both human and financial) and take considerable time
- If too little attention paid is to governance implications, NGOs may be compromised.
- Choosing 'inappropriate' partners or providers can lead to losses and failures
- If sufficient time and resources are not devoted to the decision making and set-up phases, the whole arrangement may be jeopardized
- Potential loss of positions
- Conflict may occur so agreed resolution procedures are essential.

It is critically important that any NGO considering a shared service arrangement undertakes a full cost/benefit analysis before proceeding.

Factors, that promote success in shared service arrangements

In order to ensure the success of shared service arrangements, attention needs to be focused on the following matters:

The importance of relationships and trust

Shared service arrangements are held together by trust and cooperation between parties is critical. Even when trust exists, it may take time to resolve differences and proper processes are essential to their resolution. Lack of time is often cited as a problem in ensuring the success of shared services – but without time and proper planning, they will inevitably fail.

Adopting a holistic, client-focused model of service delivery

Improvements in service delivery to clients/members need to be the primary driver. This requires undertaking research early in the planning process to fully understand community needs and priorities and barriers to effective access to services. This information is vital to making a solid case for a Shared Service proposal.

No one-size-fits-all approach

Each NGO is unique, and shared arrangements have to be tailor-made to meet the particular needs of the participating NGOs. Each of the models outlined above has a number of potential variations, and hybrids of two or more models are possible. It is important to explore what suits the NGO thoroughly and to adopt a flexible approach.

Ensure there is a comprehensive decision making process in place

It is essential that Boards and managers put sufficient time and resources into the decision making process - they need to be clear about why they are embarking on such a process and what the potential benefits and risks are to their specific organisations. It is important to remember that shared services are *not* a suitable option for all NGOs. Nor are all other NGOs suitable partners.

Put the time, commitment and money into the set-up phase

The initial phase of planning and implementing a shared service arrangement is critical. It is essential to devote time to developing trust and commitment, establishing agreements, communicating effectively and openly with all parties and ensuring that change management and dispute resolution processes are in place and implemented.

Ensure you obtain the information and expertise for a successful arrangement

It is important not to rush the decision. Each NGO needs to ensure that they have all the information they need to move forward, they have access to the relevant expertise and seek advice until Board members and management alike are confident about the decision.

Lennie's report outlines several factors and strategies for sustaining collaborative arrangements that need to be addressed in order to maximise the success of shared services. They relate to government and community support, planning and implementation of initiatives and the ongoing operation of initiatives. (Lennie, 2007, 13 – 24).

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Additional Resources

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NB: The above websites were accessible on 14 December 2015. If the links do not work search on the title of the document or go directly to the organisation's website.