A Nonprofit Guide to Outsourcing

By
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The Nonprofit Coordinating Committee of New York

The Nonprofit Coordinating Committee of New York, Inc., (NPCC) is the voice and information source for New York City-area nonprofits on issues that face all nonprofit organizations. Established in 1984, NPCC has approximately 1,500 dues-paying nonprofit members in the New York City area. **NPCC saves nonprofits money** through 14 group buying programs for basic business expenses, from liability insurance to office supplies, so nonprofits can focus their resources on achieving their missions. **NPCC strengthens nonprofits' management and governance** by providing training and support for nonprofit managers and board leaders to effectively pursue their missions and maximize the impact of their services. **NPCC serves as the voice of the nonprofit community** by building positive relations with all levels of government through our highly effective Government Relations Committee, and by promoting good governance, accountability and effectiveness by nonprofits themselves.

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Introduction:
The Nonprofit Outsourcing Clearinghouse

Managing nonprofit organizations grows more complex and challenging every year. Today's nonprofit executive must regularly demonstrate progress toward achieving the organization's mission, balance the books, comply with a growing number of financial and other regulatory requirements by federal, state and local governments, help recruit and work with a strong board of directors that keeps the organization accountable while contributing expertise and leveraging resources. The executive must also communicate the organization's "story" to a wide variety of audiences, practice enlightened management of staff and volunteers including policies of diversity, inclusiveness and cultural competency, explore and adopt appropriate new technology, and successfully raise needed revenues – all while assuring transparency, effectiveness and accountability to donors and the public!

Yet, nonprofit organizations often lack sufficient resources or, in some cases, necessary skills or expertise to carry out key management functions critical in order to sustain the organization and pursue its mission. Among the strategies that nonprofits and nonprofit management experts have explored to address these challenges (e.g., shared services, collaboration, co-location, subcontracting to consultants, and others) is **outsourcing.**

In the nonprofit community, outsourcing refers to the delegation of key management areas, especially "back office" services, to outside contractors or vendors, usually on a relatively long-term basis, with the expectation of improving quality, strengthening management effectiveness, and perhaps lowering costs. Nonprofit outsourcing differs from the common understanding of outsourcing in the business sector in that the key objective or "bottom line" is to become a more effective organization, not only to save money.

Although used by all sizes and types of nonprofit organizations, outsourcing of basic business functions is particularly relevant for smaller, mid-sized and/or younger organizations. Such organizations often lack the infrastructure and resources to fully develop effective business operations in the wide range of essential areas that require state of the art technical expertise. Such key areas today include: Information Technology (IT); Bookkeeping and Financial Management; Marketing and Communications; Fundraising; Purchasing; Risk Management; Legal Services; and Employment and Human Resources.

Outsourcing can be a logical answer to the challenge facing thousands of today's nonprofit managers: How do we become expert, well-staffed and efficient in key business operations, despite the reality that we and our organizations frequently lack the experience, in-house resources and/or wherewithal to fully develop and effectively manage key business operations? Outsourcing one or more such key functions offers opportunities for today's nonprofit managers to tap the expertise, experience and economies of scale of specialized providers of these services.

Outsourcing also offers the potential advantage of reducing (although never entirely eliminating) the scarce time, financial resources and management attention devoted to these areas, allowing more management attention to mission-related activities and results. Rather than each nonprofit entity and its manager having to become highly expert at mastering and performing these disparate functions, some or even all can be contracted out and monitored with less overall administrative time and effort.

It should be noted that many businesses and many nonprofits already have outsourcing experience. Many use a payroll company, for example, to process their payroll, remit their taxes to the appropriate government agencies, and prepare and distribute the requisite W-2 and 1099 forms. Other organizations may have a lawyer or law firm on retainer who reviews contracts and advises the organization on legal matters. Others may have a bookkeeper who maintains the bulk of the organization's financial records but is not on staff.

Until recently, few organizations have thought about outsourcing of back office services in a comprehensive and cohesive way. However, a report released in 2009 by the Eugene and Agnes E. Meyer Foundation and the Management Assistance Group, [1] based on a survey of grantees of the Foundation, interviews with grantmakers, consultants and back-office service providers as well as a review of literature on the topic, found there was a need for such services to be offered to nonprofits and an opportunity for vendors to create business models that would serve the nonprofit sector. Tellingly, the study noted that some of the barriers preventing nonprofits from outsourcing back-office services were: (1) an inability to identify providers they needed at a reasonable cost; (2) the lack of time necessary to find and contract with vendors, and; (3) unproductive experiences in the past.

In 2010, NPCC launched a **Nonprofit Outsourcing Clearinghouse (NOC)** program to help local nonprofits meet the challenges identified by the Meyer Foundation report and attain long-term success and sustainability. A primary component of this program involved the creation of a publicly searchable **NOC Database** of outsourced service providers. The idea is that nonprofits can use this tool to compare vendors and their characteristics using the same criteria to "shop" for good quality, cost-effective outsourced services providers across eight key areas: Information Technology, Bookkeeping & Financial Management, Fundraising, Marketing & Communications, Risk Management, Human Resources, Purchasing and Legal Services. The database can be found at the following site: http://noc.npccny.org.

The NOC program simultaneously began offering outsourcing consulting for nonprofits seeking in-depth consultation on their back-office functions and their potential for outsourcing. The goal of these initiatives is to make it easier for nonprofits to decide whether to outsource one or more of their administrative services and, if so, to help them choose the right provider. This effort began with a pilot group of 50 nonprofits, many of which have since engaged in successful relationships with outsourced service providers. The program has already demonstrated the value of outsourcing for participating nonprofits and promises to show positive, measurable impact on these organizations' efficiency, as well as on improving their organizational performance and increasing their impact on their missions.

The NOC program has been generously supported by The New York Community Trust, The Achelis Foundation, The Booth Ferris Foundation and The Frances L. and Edwin L. Cummings Memorial Fund. We are extremely grateful for their support.

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[1] Leach, Mark, *Outsourcing Back Office Services in Small Nonprofits: Pitfalls and Possibilities. A Study Conducted by the Management Assistance Group in Partnership with the Eugene and Agnes E. Meyer Foundation*, Washington, D.C. (September 2009): PDF file available at www.meyerfoundation.org/outsourcing09

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Chapter 1:
Overview: Nonprofits and Outsourcing

Definition:
Outsourcing is the delegation of key management areas, especially repeatable back-office services, to outside contractors/vendors for a relatively long-term. Outsourcing may be an appropriate option for organizations of all shapes and sizes, where the desired result is one or more of the following:
1. Improved operational efficiency and quality
2. Increased net revenue (in the form of cost savings or increased revenue)
3. Improved organizational and/or mission performance

The Role of Outsourcing Professionals:
The role of outsourcing professionals varies based on the size and scope of each individual engagement. A vendor is frequently used as an implementer and is subsequently responsible for managing daily/weekly tasks related to a specific functional area. A vendor may also be utilized as a teacher in an effort to educate the nonprofit and subsequently help them develop an additional level of expertise in-house. Additionally, a service provider may be used as a strategic partner to help the nonprofit make wise and educated decisions. All vendor contracts should explicitly state the role of the outsourced service provider as well as the specific deliverables to be managed by both parties.

Benefits of Outsourcing
1. Reduce long-term operating and capital costs
2. Increase revenues
3. Enhance organizational impact
4. Improve management effectiveness and flexibility
5. Increase access to technology, skills and insights not otherwise available or affordable
6. Improve ability to focus on organizational mission
7. Shift liability (eg., Payroll)

Outsourcing Caveats
Nonprofits should be aware of the following prior to moving forward with an outsourced vendor:
1. Providers must be selected and services must be performed well and within legal and regulatory requirements.
2. Nonprofit executives should be sensitive to employee reactions and misconceptions. Employees may fear for personal job security and safety, subsequently making the transition to an outsourced service provider challenging.
3. Due diligence is required to monitor the performance of outsourced service providers on a quarterly basis.
4. Boards and Senior Management must provide oversight and retain legal, fiduciary and program responsibilities.

Chapter 2:
Key Back- Office Functional Areas

The Meyer Foundation report on outsourcing noted the areas of back-office management most in need by nonprofits were: marketing and communications, human resources and financial planning. At NPCC, we have found this to be true but, over many years of offering referrals to vendors that could help our members, we've also received a large volume of requests for help with information technology, legal issues, fundraising, risk management and purchasing. After extensive interviews with vendors, we believe that these eight areas of back- office responsibility are, in fact, the ones most requested by nonprofits and the ones with a sufficient number of vendors available and willing to tailor their services to the nonprofit sector.

A nonprofit organization may choose to outsource all or pieces of an entire function. For example, it is not necessary to outsource the entire fundraising function to a third party. Many organizations simply wish to outsource prospect research or grant writing, while retaining all other fundraising-related responsibilities in-house. Service providers are typically very flexible and willing to work with clients around which areas remain in-house and those that are outsourced to a third party. A comprehensive listing of services provided by different outsourcing providers, by functional areas, can be found below. It is helpful to have a general idea of which services your organization wishes to outsource prior to contacting a vendor.

1 - Information Technology
1. Strategic technology planning
2. IT audit management
3. Procurement
4. Server installation and management
5. Network installation and management
6. Desktop/laptop installation and management
7. Mobile device support
8. Cloud services
9. Server back-up and maintenance
10. Systems monitoring
11. Network system upgrades
12. Networking across multiple sites (WAN)
13. Virtual Private Networking (VPN)
14. Network security
15. Software updates
16. Website creation
17. Website maintenance and uploads
18. Development and maintenance of intranet
19. Development and maintenance of extranet

20. Development and maintenance of web-based applications
21. Database creation
22. Database maintenance
23. Cabling
24. Moves and expansions
25. Setup and maintenance of virtual infrastructure
26. Installation and maintenance of phone system
27. Training Services
28. On-site emergency assistance
29. Off-site emergency assistance
30. 24/7 support/help desk
31. Disaster recovery services

2 - Bookkeeping & Financial Management
1. Strategic financial planning
2. General bookkeeping (including A/R processing, A/P processing and bank reconciliations)
3. Management of relationship with payroll processing firm
4. Preparation of donation receipts and thank you letters
5. Audit preparation
6. 990 preparation
7. 990 Questionnaire preparation
8. Assistance with budget preparation
9. Chart of Accounts preparation and/or updates
10. Creation of financial reports
11. Board reporting
12. Funder reporting
13. Forecasting

3 – Fundraising
1. Strategic fundraising planning and execution
2. Grant writing
3. Grant management
4. Prospect research
    a. Individual
    b. Foundation
    c. Corporate
    d. Government
5. Event management
6. Major gift campaigns
7. Capital campaigns
8. Planned giving
9. Government contracts
10. Hiring fundraising staff

11. Case materials and message development
12. Infrastructure development
13. Direct mail and e-solicitations
14. Database management
15. Board and staff development

4 – Marketing & Communications
1. Strategic communications planning and execution
2. Media relations and management (including press releases, research and media placements)
3. Crisis communication
4. Branding
5. Creation of donor communication and solicitation materials
6. Creation of social marketing/program materials
7. Staff training for media interviews and public speaking
8. Social network capacity building
9. Website development and design
10. General advertising and marketing
11. Special event promotion

5 – Risk Management
1. Strategic risk management assessments and periodic risk reviews
2. Property and casualty products and services
3. Employee benefits and retirement products and services
4. Health insurance products and services
5. Staff training
6. Training, procedures and policy manuals

6 – Human Resources
1. Strategic human resources planning and execution
2. Recruitment and staffing (permanent and temp)
3. Benefits administration and consultation
4. Training and development
5. Performance management
6. Employee/labor relations services
7. Compensation analyses/salary surveys
8. Creation of employee manuals/policies
9. HR compliance, audit and assessment
10. HR help desk
11. Vendor management solutions

7 – Purchasing
1. Strategic purchasing planning and execution
2. Access to discounted group purchasing programs

3. Vendor referrals and coordination
4. Manage vendor bidding process
5. Cut purchase orders and make delivery arrangements
6. Manage vendor relations including issue resolution

8 – Legal Services
1. Strategic legal planning and execution
2. Starting a nonprofit
3. General commercial and corporate documents
4. Tax exemption
5. Governance
6. Structuring of collaborations and partnerships
7. Mergers and alliances
8. Litigation
9. Fundraising and solicitation guidance
10. Privacy issues
11. Bond work
12. Real estate
13. Government relations/lobbying
14. Intellectual property
15. Labor and employment law
16. Outsourced general counsel

Chapter 3:
Selecting and Working with Outsourcing Vendors

Tips for Creating Successful Outsourcing Arrangements

Many nonprofits struggle with the decision of when and whether to outsource. It is frequently less expensive to outsource a specific function rather than hire a full-time or part-time staff person. Numerous vendors and nonprofits cite the following essential tips to maintaining sustainable, efficient and productive relationships with outsourced service providers. These are also helpful in determining whether or not your organization is adequately prepared to outsource.

1. Your nonprofit must make a long-term, internal commitment to develop a specific functional area with outsourcing as a potential first step
2. Your nonprofit and the outsourcing services provider or vendor that you select should set clear expectations, goals and deliverables for all relevant parties in writing
3. Your nonprofit should obtain both staff and board support prior to contacting outside vendors
   a. Ensure that you have appropriate staff support both in an oversight and administrative capacity
   b. Ensure that your Board of Directors is aware of your selection process and prepared to support you choices(s)
4. Your nonprofit must have the ability to pay for outsourced services

At a minimum, nonprofit organizations should take the following steps prior to hiring an outsourced service provider:

1. Conduct an in-person interview
2. Check three references
   a. All vendor references should be for nonprofit organizations of similar size and scope (if possible) and for work performed within the past 12 months
3. Review the vendor website to both obtain a better understanding of services provided and the client service model
4. Search resources such as the NOC database, the Better Business Bureau or perform a simple Google search for additional information

A listing of potential questions to ask vendors during the interview process is as follows:

1. What is the scope of your service -- in detail?
2. How long have you been in business?
3. Do you work with clients outside NYC? If so, where?
4. Where are services typically provided; on-site, off-site or a combination?
5. How many nonprofit clients do you serve in my city, sector, and organizational size?
6. Do you have the bandwidth to take on another client right now?
7. Can you provide references for three nonprofit clients of similar size and complexity to my organization?
8. Who will I be working with?
9. How do you handle employee turnover?

10. What's the "food chain" -- if you have a problem, how does it get resolved (in detail)?
11. How do you charge for services; hourly or project fee?
12. How long do you usually work with clients (months or years)?
13. What will you expect of our organization (including board, staff, etc)? Describe the ideal relationship with the organization's professional staff.

Prior to engaging with a vendor, most outsourcing service providers will supply a standard contract for nonprofits to review and sign. It is highly recommended that all vendor contracts be reviewed and edited by an attorney.

Chapter 4:
Pricing

The price you pay for a vendor's services will, of course, depend on many factors: the service offered, the length of the engagement, the level of service(s) you need and the complexity of the service arrangement. You will notice in the NOC database (https://noc.npccny.org/noc/) that we have asked each vendor to outline its pricing model. We urge those contemplating any outsourcing relationship to compare costs among vendors, inquire about past and future anticipated price increases, and memorialize all pricing within the contract established with a vendor. You may also want to include pricing in the questions that you ask other nonprofit organizations that have used or are using the vendor's services. For example, "Was the original estimate the amount that you actually paid, or did the cost subsequently go up (or down)?" We recommend asking as many current or recent users as possible to get a feel for the range of your potential actual costs.

Pricing for outsourced services varies based on the size and scope of the client engagement. Although some vendors may offer pro bono services for clients that meet specific criteria, this is not the norm. Numerous service providers will, however, offer discounted pricing for nonprofits. Many of the vendors included as part of the Nonprofit Outsourcing Clearinghouse program offer additional discounts to NPCC members. Please review our database of service providers for more information. http://noc.npccny.org

Vendors not only vary in how much they charge for specific services but how they bill clients. A brief overview of the two most widely used billing schedules are as follows:

1. **Hourly** – Many vendors will bill clients at either a flat rate per hour or a variable rate based on the level of expertise provided (ex. Partner bills higher than an Associate). Under this arrangement, clients strictly pay for hours worked by the vendor, which may ultimately be less expensive than a fixed fee arrangement.

2. **Fixed fee** – Numerous service providers find it beneficial to bill a flat rate for services provided. This is typically done on a monthly, quarterly or project basis and is derived based on the estimated number of hours to be worked within a given period. This model may work very well for organizations on a fixed budget and are subsequently unable to handle variable monthly or quarterly costs.

Many vendors also offer an hourly/fixed fee hybrid arrangement whereby some services are billed hourly and others are locked in at a fixed rate. Others may initially bill on an hourly basis for the first few months and then transfer onto a fixed fee schedule once client needs and preferences are better understood. It is helpful to have a clear understanding of vendor billing options and the pros and cons of each scenario prior to engaging with a service provider.

Chapter 5:
Contracting With Vendors[2]

A *contract* at its most basic is a set of promises between parties that, if one party breaches or fails to perform, entitles the other party to a remedy under the law. It is the document that helps set each party's expectations and puts in writing the goals and deliverables to which each party has agreed. Read all contracts carefully and make sure you understand the terms before signing any agreement.

An agreement is reached as a result of a negotiation between parties. Each party has to benefit enough from the relationship to be willing to accept the agreement and sign the contract. Several key principles may be useful in approaching a negotiation:

- Be prepared: Gather information in order to understand each party's goals including market rates for services and industry practices.
- Determine a bottom line: What is the most your organization can afford to pay? What minimum level of services must be received in order for the arrangement to make sense?
- Have a clear goal: What business arrangement would best benefit your organization?

When entering into a contract it is essential to understand all the terms of the agreement and to thoroughly review the written agreement since important terms can be buried in "boilerplate" language at the end of a document. Key contractual provisions include:

- Term: How long will the contractual relationship last?
- Costs: How much will you pay for what services?
- Modification: What happens if the parties want to change the contract?
- Termination: Under what circumstances can each party end the contract? What, if any, is the penalty for ending the contract early?

Just because a vendor maintains that a contract is their "standard" form of agreement does not mean that it cannot be changed. Ask for the changes that are necessary to make the contract advantageous.

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[2] Thanks to Linda Manley, Legal Director, Lawyers Alliance for New York, for this advice. A new edition of the Lawyers Alliance publication, *Advising Nonprofits*, which includes a chapter on contracting, will be available in January, 2013. www.lawyersalliance.org

Chapter 6:
Tracking Outsourcing Outcomes

It is essential to measure key outcomes as a result of working with an outsourced services provider. Performance metrics should be tracked in conjunction with the vendor and written into contracts as appropriate. These metrics should fall into the following three categories and will vary both by organization and functional area outsourced:
1. Increased net revenue
2. Improved operational efficiency
3. Improved organizational performance

NPCC works with nonprofits to track performance metrics for a period of one year. All participants in our Nonprofit Outsourcing Clearinghouse program are asked to track the following metrics, regardless of the area(s) outsourced.
1. Increased net revenue
     a.   Decline in costs
     b.   Increase in revenue
2. Improved operational efficiency
     a.   Decrease in staff/board time spent on the outsourced function

Additionally, NPCC also tracks the following metrics, within the area of improved organizational performance:

Bookkeeping & Financial Management:
1. Decline in bookkeeping errors
2. Improved audit results as measured by the following:
     a.   Decline in issues raised within Management Letter
     b.   Decrease in year-end closing journal entries by auditor
3. Increased accessibility to financial reports and templates by Board of Directors

Fundraising:
1. Increased number of revenue streams
2. Increased Board involvement in fundraising as measured by the following:
     a.   Increased number of Board members contributing to the organization
     b.   Increased total revenue contributed by the Board
     c.   Increased Board member time devoted to fundraising
3. Increased use of solicitation strategies
4. Improved fundraising infrastructure

IT:
1. Decline in organizational disruptions
2. Improved access to IT tools/services

Marketing & Communications:
1. Increased number of revenue streams
2. Increased recruitment of new volunteers
3. Increased alumni/client engagement
4. Increased support from community members
5. Increased active partnerships
6. Achievement of a new advocacy or legislative goal
7. Increased use of solicitation strategies

Human Resources:
1. Improved employee morale, productivity or job satisfaction as measured by the following:
    a. Decline in employee turnover
    b. Increased employee attendance and/or participation at meetings and organizational events
    c. Decrease in employee complaints since signing with a vendor
2. Increased use of employee and labor-related legal expertise
3. Implementation of new HR-related policies and procedures
4. Protection from at least 1 source of liability and loss by retaining a third party, thereby mitigating risk

Legal Services:
1. Improved ability to handle regulatory compliance matters
2. Implementation of new policies and procedures responsible for mitigating legal risk

Risk Management:
1. Decline in reported losses/insurance claims
2. Improved ability to handle regulatory compliance matters
3. Implementation of new policies and procedures responsible for mitigating legal risk

Purchasing:
1. Improved access to goods and services
2. Decline in logistical errors

Chapter 7:
Conclusion and Contacts

Outsourcing is an incredibly useful tool that can have numerous positive implications for nonprofit organizations. Through the NOC program, we have witnessed strong preliminary results from our program participants (final results will be published in a report in mid-2013). Outsourcing has helped these organizations build sustainable revenue streams, cut costs, enable staff to focus on programmatic versus administrative tasks and improve numerous other aspects of organizational performance. We look forward to building upon and expanding this program in the future.

Please feel free to contact us with any questions or comments:

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