

# MANAGEMENT

## Nonprofit Outsourcing: A Vital Option

Thirteen years ago, as executive director of a human services organization, I was faced with two problems: I saw my staff fail at certain tasks and realized that I needed a higher level of thinking than I could afford to hire on a permanent basis. A friend recommended using an outside specialist. At first, it seemed unusual to be reaching outside of the organization. Then I realized that my bookkeeper was only on premises for two days a week, and my direct mail service had never been on-site. My frame of reference suddenly changed, and I began to explore an option that many nonprofit organizations still underutilize or fail to consider at all – outsourcing.

Outsourcing refers to the practice by which a company delegates certain in-house functions to a third party. In the for-profit and government sectors, it has become an accepted management strategy and has developed into a worldwide \$450 billion industry of its own.

Outsourcing is an inevitable consequence of the growth in specialization. It began early in the 20th Century and was given a new impetus by the information revolution. Payrolls, communications, and document management rapidly became technical functions best left to professionals. By 2000, more than half of all IT services in North

America were being outsourced. The trend rapidly spread from big business to small and mid-sized firms. In a more recent wave of outsourcing, businesses have started to delegate their human resources, accounting, and marketing operations to specialized firms.

Business and government have adopted outsourcing because it works. Tasks are completed cheaper, quicker, and better by outside specialists. A higher level of technical expertise is available to the buyer, and in-house staff is free to undertake more productive and stimulating work. For these reasons, the trend is expected to continue and the use of off-site resources, whether offshore or down the road, will inevitably become the norm. As Thomas Friedman put it in *The World is Flat*, “The best companies outsource to win, not to shrink. They outsource to innovate faster and more cheaply in order to grow larger, gain market share, and hire more and different specialists—not to save money by firing more people.”

However, outsourcing by nonprofits is relatively rare, say experts at The Hauser Center for Nonprofit Organizations at Harvard University, the Aspen Institute, and several other think tanks. Blackbaud’s recently released 2006 State of the Nonprofit Industry Survey supports this assessment. Given a list

of ten specific tasks ranging from accounting to grant writing, between 84% and 99% of the 785 nonprofit professionals surveyed said the functions were performed in-house. Only 16% outsourced their Internet and Web management. Another 15% outsourced their data management and computing needs. The numbers outsourcing any other function were negligible. Most shocking is the fact that no more than 7% of respondents outsourced any component of the area most critical to a nonprofit’s survival: fundraising. (See *Smart Outsourcing: A Focus on Fundraising* on the next page.)

It is not that sources of off-site expertise are lacking. Outsourced human resource services such as HR XCEL are available to many nonprofits, and IBM Business Consulting Services is developing an off-site procurement operation that would enable smaller agencies to aggregate their buying power and obtain better prices.

In New York City, a number of initiatives designed to serve the specific needs of local nonprofits have been developed. F.E.G.S. Health and Human Services System has created a new platform of “shared services” to help nonprofits build infrastructure. Alfred P. Miller, who recently retired as CEO of FEGS, established four companies—HR Dynamics, ALLSector Technology, Staff Resources, and XBRM—providing support services in HR, IT, staffing, and crisis management, respectively. More than one hundred nonprofits avail themselves of these services. Approximately 40% of the nonprofit clients of HR Dynamics and ALLSector entirely outsource in-house functions. Similarly, nPowerNY offers a range of outsourced IT services for local nonprofits.

The “common market” approach to procurement functions has caught on elsewhere in New York.

Both the Nonprofit Coordinating Committee and the Federation of Protestant Welfare Agencies broker discounts on purchases of member agencies as well as discounted professional services such as legal and management assistance. Like the European Economic Community, however, the member units have refrained from assigning any of their internal functions to the umbrella organization.

Why are nonprofits shy of outright outsourcing? E. S. Savas, Ph. D., Presidential Professor of the School of Public Affairs at Baruch College offers several reasons. “One,” he says, “is ‘We’ve always done it this way. We’ve been doing it this way since the Dutch.’”

One can even detect something of a “backlash” in the nonprofit world. “There is a feeling that a favored staff member would lose a job, even though that person might be harming the organization,” says Savas. Having become identified with the “offshoring” of American jobs overseas, outsourcing may seem an unsavory practice to members of the helping professions who have a keen sense of social justice. “We don’t outsource,” the development director of a downtown youth services agency recently advised a consultant who sought an interview with her. Her tone was dismissive, as if she were being asked



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to support the death penalty or carry a concealed weapon.

“There is a concern they would lose control, even though governments that outsource have found that they actually gain control,” adds Savas, who has studied government outsourcing to nonprofits in eight major cities and is the author of *Privatization*, a seminal work on the subject. “Stephen Goldsmith, the former mayor of Indianapolis, outsourced some eighty functions including water plants, solid-waste—i.e., garbage—disposal, and street paving. He said, ‘I have more control over private contractors that I ever had over my own work force!’”

### To Outsource or Not To Outsource?

How should nonprofits approach the question of whether or not to seek outside help?

Here is a consensus of opinion gleaned from academics and practitioners on what to consider before they outsource anything.

First, you must know who you are and what your mission is, and be able to distinguish your support functions from your core competencies. Core competencies concern the quality of the services you provide—how food is delivered to your hungry clients, how housing is made available to those who are homeless. Any organizational task that is not central to your mission can be outsourced without detriment to the integrity of your agency.

Second, you should frankly assess your strengths and weaknesses. If the same intractable dilemmas confront you year after year, it may be necessary to outsource a non-core function, such

as fundraising, in order to advance further along the growth curve and arrive at a new and better set of problems.

Measure the time and costs involved in outsourcing against the costs of your in-house administrative processes. Outside consultants may seem expensive based on costs per project or an hourly rate far in excess of what you pay your own staff. Remember, however, that you are only paying for what you need – no downtime, no expensive benefit packages, no vacation or sick leave, none of the potential liabilities that come with any full-time employee. In addition, consider the “opportunity costs” of failing to take advantage of a specialist’s knowledge and skill, and the “hidden costs” of relying on an in-house staff that lacks the know-how to navigate in critical waters.

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# MANAGEMENT

## Smart Outsourcing: A Focus on Fundraising

As a young executive director newly hired at a middle-sized human service nonprofit, I was presented with a three-person development team: A director of communications who did not want to be involved in fundraising. A development assistant who managed the donor data base, prepared biographical profiles on donors, and coordinated special events. And an executive assistant who spent a quarter of his time on direct mail. The organization was about to hire a director of development and had identified three finalists, all good candidates. But I was worried.

I did not want the new development director to get bogged down with grant deadlines. I wanted the new hire to focus entirely on the lucrative area of major gifts solicitation. (The strategy worked out very well as we made up a \$187,000 deficit within four months and established the agency's first reserve fund three months later.) So I decided to venture into unknown territory and outsource the grant-writing function. A few board members frowned: it was an additional expense. But I went a step further and secured a restricted grant from one of our most loyal supporters to underwrite the consultant's fee.

It is easy to see, simply by reading the Chronicle of Philanthropy, that small and mid-sized organizations were grossly underperforming in raising funds. They were—and still are—failing to energetically apply advanced fundraising strategies in major gift solicitation, planned giving, and capital campaigns.

Fundraising has become an increasingly specialized field. Large nonprofits, of course, employ a corps of specialists to write grant proposals and direct mail appeals; identify, cultivate, and deepen relationships with major donors; obtain and manage relationships with corporate sponsors; and build endowment funds. Small and mid-size organizations, such as the one on my resume, usually hire one or two full-time staff members to discharge all fundraising functions. But the generalist is more of a liability than an asset in today's economy. A proficient grant writer may not be a skillful steward of major donors or be able to help an agency increase its endowments through planned giving. Nonprofits can and do lose potential revenue if its development personnel are one- or, at best, two-dimensional players and critical areas of fundraising are not being effectively explored.

Highly specialized outsourced fundraising services are multiplying in many areas of the country. The Dayton Foundation, a community foundation based in Ohio's Greater Miami Valley region, has established a Legacy Partnership Program for the outsourcing of planned giving for local charities. Outsourced planned giving options are exercised in other parts of the country through private consultants. Alternatively, many nonprofits have been turning to consulting firms that, like major law firms, offer the services of a cross-trained team. Such firms can assemble polished grant writers, proficient capital campaign managers, and experienced major donor and planned giving specialists, etc. in accordance with an agency's needs over the course of a multi-year contract. Since services are based on a defined scope of service, the retainer fee remains highly competitive.

Outsource fundraising counsel can also help scrape off the rust that nonprofits tend to accumulate in their fundraising machinery. As Richard N. Foster, a management consultant in the for-profit world, has shown in his book *Creative Destruction*, organizations tend to become locked into certain mindsets that adversely affect their performance. Here, by way of illustration, are some typical fundraising dilemmas where outsourcing can expose outmoded beliefs, assumptions, and modes of operation.

*"The board keeps asking me why we aren't raising more money."*

Do you know what it is costing you to raise a dollar? You may want to hire a fundraising consultant to audit your development program, determine your ROI (Return on Investment), and suggest new fundraising opportunities – sometimes requiring new expertise. The development audit often starts with an analysis of your donor cultivation process, donor data, and revenue projections. It also appraises the extent to which your revenue sources are diversified and the role of the development department in assuring program outcomes. The process is relatively short, taking 30 to 90 days.

*"We try new ways of increasing revenue, but keep getting the same results."*

Outsourcing in this scenario functions as the intervening variable needed to make the changes you seek. The consultant's task is to re-organize the overall development strategy to allow for more lucrative activities and assist staff in making the transition.

*"I have a great staff, but they don't know how to close a major gift."*

Your competitive edge has to be sharpened by acquiring advanced skills. The consultant can add value to your organization by working alongside your existing team, or the consultant can do the work, thereby adding greater capacity to your operations.

*"I've got a great idea for a program, but..."*

Starting a new program should not be a total leap of faith for nonprofits. It is often prudent to call for a feasibility study which clarify the assumptions underlying a proposed initiative and test those assumptions in a series of interviews with both donors and clients. Feasibility studies can also assess your current fundraising program to see if the necessary foundation has been established for a major or capital campaign.

*"What if the government doesn't renew our contract?"*

The world we live in is continually changing. Funding sources evolve, as do demands for service. The AIDS epidemic, for example, ceased being a death sentence and became a life sentence. Those afflicted with HIV are now living longer with the virus and requiring different kinds of support.

Strategic Planning is often needed to better prepare for the fundraising future. Such planning may require intensive research from a fundraising specialist whose expertise aligns with your mission, but whose range of experience and awareness of industry trends is broader than those of your current staff.

*"I know he's not the right person, but I'm going to hire him anyway."*

Filling a senior development position can take six months or more. Don't rush it. Outsourcing certain fundraising functions during a search can keep the wheels spinning. Further, you can provide a new staff person with a proper transition period if the consultant overlaps with the new hire for the first 30 to 90 days on the job and smoothly transfers the details of your fundraising program.

*"I'm starting to getting tired, Coach."*

Most nonprofits expect a fast return from fundraising activity, which is actually a slow and painstaking process. That's why it's called development. This expectation of rapid results is a heavy burden for development professionals and a major cause of burn-out. The best first-aid is to enjoy the support of a coach, particularly one trained in the art of transferring development skills. Surveys show that senior executives who have coaches perform at higher levels. For this reason, for-profit companies, on average, budget \$13K annually for coaching each of their managers according to Vistage, Inc. who's been in that business since 1957.

The two reasons most often given for not finding a coach are "I don't have the time" and "I don't have the money." Yet those who experience coaching say, "It was the best thing I ever did."

Outsourcing basically means aligning the right person with the right skill set with the right task. For small and mid-sized agencies that understand the need to equip themselves with advanced techniques of fundraising, that person is more likely to be based outside of the agency than in-house.

Conversely, remember that outsourcing is not a cure-all for corporate ills. An organization in disarray will not solve its internal problems by moving them off-site. There also may be hidden costs in the time and expense to negotiate a satisfactory contract and resolve subsequent disputes and misunderstandings. "Outsourcing is like a marriage and must be worked on by both sides to be successful," says Richard Phillips, co-founder

of Out Sec Limited, an outsourced secretarial service. As in romance it pays to know who you are dealing with, and a commitment to a long-term relationship is usually the key to a successful coupling.

In the end, proportionality is a good rule of thumb. Outsourcing should simplify matters. If the proposed solution is more complicated than the problem, it may not solve anything at all.

Finally, nonprofit executives need to rethink any emotional aversion they may have to outsourcing. If you have an accountant or a lawyer; if you use volunteers; if you contract with an internet service provider or get your power through Con Edison instead of running your own generator, you are already outsourcing. To quote Guy Clapperton, columnist for *The Guardian*, "In these cases you are doing

traditional outsourcing – getting someone with the right skills in to do something you can't."

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