At La Piana Associates, an important component of our work is helping nonprofits develop partnerships, collaborations, and mergers. Over the years we have seen an increasing interest among nonprofits in one type of partnership: sharing administrative services. As nonprofits experience the benefits of programmatic collaboration, they are more willing to try administrative collaboration, and even the creation of a new organization for shared functions: a management service organization (MSO). The functions nonprofits most frequently share include human resources management (HR), finance, and information technology (IT). Some of the forces driving this interest include:

- Increasing costs for administrative services, both functionally and to meet compliance requirements
- Increasing importance—and cost—of IT
- Increasing interest in risk management
- Expansion of all areas beyond the transactional functions they are often limited to
- A need for greater administrative sophistication

We have helped a number of organizations explore models of administrative collaboration and consolidation. Given the success that nonprofits have had in forming and implementing mergers and alliances (although not without a significant amount of time and effort), we initially believed that many nonprofits could—without great difficulty—gain administrative and cost efficiencies by sharing costs for “back-office” functions, such as human resources, finance, information technology, and marketing.

On the surface, these types of partnerships seem to be less complex than mergers and other alliances. Our experience, however, has shown that they often struggle in the early stages, if they get implemented at all; many do not. Thus, we began to look more closely at the factors and processes most conducive to successful administrative collaborations and consolidations. This paper reports on what we have learned.

**DEFINING NONPROFIT ADMINISTRATION**

For our purposes here, nonprofit administration includes:

**Human Resources:** Recruiting, orientation, personnel policies, performance management, compensation, benefits, transition management, training and development, employee relations, risk management, and workplace safety issues.

**Finance:** Accounts payable, accounts receivable, budgeting, planning, reporting, forecasting, grants management, payroll, cash management, and meeting public accountability expectations.

**Information Technology:** Hardware, software, networking, database administration, technology planning, and website management.

**Other Areas:** Marketing and communications, grant-writing, purchasing, security, office space, telecommunications, and furniture and equipment.

**THREE LEVELS OF FOCUS**

Human resources, finance, and information technology functions all exist at three levels: the transactional, the managerial, and the strategic. The latter elements are built upon the former.

**The Transactional:** Tasks at this level include the baseline paperwork for personnel processing, benefits administration, payroll, bookkeeping, file management, and maintenance of IT systems. The focus is on current day-to-day operations.

**The Managerial:** Tasks at this level include employee relations, management development, training, financial reporting and analysis, and network and database administration. The focus is on short-term future decisions and direction.

**The Strategic:** At this level, administration entails connecting multiple functions and increasing cohesion and effectiveness. The focus is on longer-term future decisions and direction.

Administrative collaboration or consolidation can occur at any of the three levels, but it most often starts at the transactional level. Sharing or consolidating the processing of personnel, paperwork, and data often requires less stress and
change than would be the case at a deeper level of involvement.

**OPTIONS FOR SHARING OR CONSOLIDATING ADMINISTRATIVE FUNCTIONS**

There are four options for organizations that want to share or consolidate functions:

An **administrative collaboration** is an informal, and not necessarily enduring, arrangement wherein nonprofits share services or expertise. It can include the sharing of best practices, underused resources, or staff time.

An **administrative consolidation** is a more formal agreement that involves the sharing of specific functions to increase administrative efficiency. It includes a commitment to continue, for the foreseeable future, shared decision-making power. However, it does not involve any change to the corporate structure of the participating organizations.

A **management service organization** (MSO) is a new organization created to integrate administrative functions, and thereby to increase the participating organizations’ efficiency. Governance of the MSO is typically shared among the founding nonprofits.

The fourth option is to outsource elements of administration by using **external service providers** such as a Professional Employment Organization, bookkeeping service, or contract IT provider.

Figure 1 presents examples of how organizations might share or consolidate their various administrative functions, and of when an MSO is most beneficial. Our focus is on the first three options.

**THE RUBRIC FOR DECISION-MAKING**

We use the rubric shown in Figure 2 as a guide when advising a client whether or not an administrative collaboration or consolidation is worth pursuing. Given the cost and effort required, there must be a real gain to justify its pursuit. The main goal is to provide better support for programs. Designing a partnership that merely enables shared delivery of the same level of service the parties experienced separately for the same cost, is not desirable. The outcome must fall into one of three categories for it to be worth pursuing: produce the same or a higher level of service for a lower cost, or a higher level of service for the same cost. A fourth option—a partnership yielding a higher level of service, but at a higher cost, must yield worthwhile gains in the level and/or quality of service and be financially bearable to all parties.

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### Figure 1: Types of Administrative Partnerships

<table>
<thead>
<tr>
<th>Option</th>
<th>Human Resources</th>
<th>Finance</th>
<th>Information Technology</th>
<th>Other</th>
</tr>
</thead>
</table>
| Collaboration | Sharing policies, procedures, best practices  
               Cross-training (e.g., spending time in each
               other’s offices)  
               Shared recruiting, training | Sharing policies, procedures, best practices  
               Joint finance training for staff and board | Sharing policies, procedures, best practices  
               Coordinated IT analysis and assessment  
               Joint training of staff on new software | Sharing governance models  
               Coordinated long-range planning  
               Joint marketing of programs |
| Consolidation | Mentoring  
               Standardized HR practices, training  
               Development of a common recruiting pool  
               Shared HR professional | Shared accounting systems  
               Shared CFO or other key finance staff (e.g.,  
               bookkeeper)  
               One organization provides accounting services for another | Shared database and server  
               Shared IT professional and other key staff  
               One organization provides IT services for another | Advocacy training for boards  
               Shared marketing/development staff, such as  
               a grant writer  
               Bulk purchasing  
               Translation services |
| MSO | Shared employment  
               Co-employment  
               Single benefits program  
               Benefits administration | Centralized finance staff and systems, report generation, cash management, billing | Intranet  
               Common Help Desk  
               Shared accounting software  
               Centralized servers | Centralized facilities management  
               Coordinated grants management and reporting |

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### Figure 2: Analyzing Outcomes

<table>
<thead>
<tr>
<th>Cost</th>
<th>Lower</th>
<th>Same</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher cost</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Same cost</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Lower cost</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>
RESEARCH FINDINGS

In exploring models of administrative partnerships, we found that most are between organizations that have similar programs and/or serve similar populations. They typically involve one larger organization (usually $2 million or more in revenues) and one or more smaller organizations (that is, with less than $500,000 in revenues). Most of the partnerships that we examined only consolidated select common functions, leaving out those that were more specialized or idiosyncratic. Figure 3 presents a summary of our findings.

While management service organizations (MSOs) appear to hold great opportunity for administrative efficiencies, they are not very common. To determine why, we interviewed leaders of ten MSOs across the country to find out what factors are associated with success. We learned that successful MSOs typically have a mission related to serving a specific community and assisting in the capacity-building efforts of organizations in that community.

Additionally, MSOs usually:

- Use one set of systems and procedures to provide their services
- Provide a standard menu of services for a set fee, plus optional services priced separately
- Do not provide customized services; they achieve economies of scale as a result of standardization
- Have clients whose annual revenues are less than $500,000 and whose back-office needs are fairly straightforward

STEPS TO EXPLORING ADMINISTRATIVE PARTNERSHIPS

If your nonprofit is considering some form of administrative collaboration or consolidation, or the creation of an MSO, the following process may help you move forward:

Step 1: Identify and create a flow chart of the systems in your current administrative structure. Most administrative systems evolve organically, based upon the skills, demands, personnel, and requirements present at a given point in time. In order to determine where you might create efficiencies, you must begin by documenting your existing administrative structure.

Step 2: Define a desired state for your organization’s administration. What improvements would you like to make? For example, what would

<table>
<thead>
<tr>
<th>Option</th>
<th>Best Used When</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
</table>
| Collaboration | Scalability is not possible  
Autonomy needs are high  
Systems are too unique for consolidation | No need for outside resources, a new entity, or new systems  
Can be implemented quickly  
Flexible; no long-term commitments  
No radical adjustments or disruptions  
Low cost to implement | Solutions are limited by the organizations’ resources  
Limited ability to increase capacity  
Potential synergies of a deeper partnership are not realized |
| Consolidation | Nonprofits operate similar programs in the same or adjacent communities  
Good relations exist among the parties  
Expansion is not necessary | Consolidating simple functions is often inexpensive and yields quick results | Possibility of taking resources and focus away from the mission  
Time to administer  
Serving two (or more) masters  
Costs of building/migrating systems |
| MSO | This will be the entity’s sole business  
Existing systems need minimal migration  
Systems are easily scalable  
Funders will support start-up | An opportunity to create new systems from scratch to meet service needs  
Shared ownership  
More easily identified as a separate organization with expansion possibilities  
An integrated service model  
Mission focus is on providing administrative services, not programs | Need to create new systems from scratch  
Expensive to create  
There may be significant migration issues  
Requires initial large investment of time  
Potential loss of control over operations in core areas; that is, loss of ability to customize services |
an upgraded HR function look like? Would it provide more analysis of recruitment and retention trends? Would it do more management training and development? Go through the same process for your finance and IT functions.

**Step 3:** Explore potential partners. Who in your community might have some of the same needs and desires as you? A good potential partner would be an organization that:
- Has a mission that has is consistent with yours
- Has similar types of programs and funding
- You respect and trust, and that has a good reputation and is not currently in crisis
- Has an interest in improving its services

**Step 4:** Begin to explore potential partnerships. Approach the process as an opportunity to learn from one another and work together to explore opportunities. Each potential partner should describe the administrative systems and structures currently in place, and what they would like to have. Figure 4 presents an example of this type of assessment. This step might involve a feasibility study, joint planning sessions, and/or meetings of the administrative staffs to share information, challenges, and ideas.

**Step 5:** Begin to develop models and solutions. Your end result should:
- Further the mission and vision of each partner
- Be cost effective
- Be sustainable
- Not be so time-consuming that it would divert the organizations from service delivery
- Have a measurable and positive return on investment

**CONCLUSION**

While at first glance the benefits of administrative collaboration and consolidation seem evident, before embarking on this path organizations need to conduct a sound analysis of their current functions and needs. Costs and benefits must be carefully researched and understood before the potential partners move forward with any type of partnership. With a clear eye toward maximizing efficiencies, making improvements, achieving sustainability, and supporting their mission, nonprofits can and will make smart choices about the next generation of administrative services in their organization.

More information on these and other types of partnerships is found on our website at [www.lapiana.org/sr](http://www.lapiana.org/sr).

**FIGURE 4: EXAMPLES OF PARTNERSHIP ASSESSMENT**

<table>
<thead>
<tr>
<th>What we have</th>
<th>What we want</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources</td>
<td>A stronger employee/volunteer recruitment and screening system</td>
</tr>
<tr>
<td>Integrated HR, payroll software</td>
<td>Expertise and knowledge in HR policies, laws</td>
</tr>
<tr>
<td>In-house training program</td>
<td>Human Resources Information System (HRIS)</td>
</tr>
<tr>
<td>Finance</td>
<td>Better management of contracts</td>
</tr>
<tr>
<td>Accounting package</td>
<td>Fundraising/accounting integration</td>
</tr>
<tr>
<td>Experience in controlling and managing diverse</td>
<td>Software updates</td>
</tr>
<tr>
<td>sources of revenue</td>
<td>Strategic financial planning</td>
</tr>
<tr>
<td>Information Technology</td>
<td>Intranet for board and staff</td>
</tr>
<tr>
<td>Great website</td>
<td>Better systems coordination and maintenance</td>
</tr>
<tr>
<td>Experienced IT Director</td>
<td>Integrated client tracking software</td>
</tr>
<tr>
<td>Office Management/Other</td>
<td>Improved facility with parking</td>
</tr>
<tr>
<td>Fund development staff</td>
<td>Marketing staff/support</td>
</tr>
<tr>
<td>Adequate facilities</td>
<td>Automated purchasing process</td>
</tr>
</tbody>
</table>