Sharing Financial Adminstration

A Feasibility Study of Potential Models for Small Non-Government Organisations

NCOSS

Research Report

Council of Social Service of New South Wales (NCOSS)

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Contents

1 Summary of key findings

- Small non-government organisations in NSW currently employ a range of different models to undertake their financial administration and financial management functions. Most commonly they are done "in-house" by part time staff or volunteers, and are areas where many small organisations struggle.
- The long-term financial viability of smaller non-government organisations is guided by the extent to which they adopt efficient practices and take advantage of economies of scale, cooperative practices and optimal use of resources.
- There are various models for sharing back office functions that are starting to emerge in the not-for-profit sector.
- From this research, four models have emerged that are all promising options for small non-government organisations:
    - Outsourcing back office functions to a specialist provider;
    - Partnering with a larger community organisation;
    - Co-location with other small non-government organisations; and
    - Joining back office and governance functions with other small non-government organisations.
- Each model carries various risks and benefits, and individual organisations will need to consider their own situation to determine which model may be appropriate for them.
- In any sharing arrangement there must be good relationships between the participating organisations and a great deal of trust.
- To ensure the success of a shared services arrangement it is essential that the setup phase is appropriately resourced so that all the necessary work can be completed.
- There is a high need for information about various models for handling financial administration and financial management within a small organisation, and for access to expertise to support the implementation process.

2 Introduction

The Council of Social Service of NSW (NCOSS) stresses the importance of valuing existing local services and recognising their knowledge and expertise within their local community. NSW Department of Community Services (DoCS), which funds many small NGOs, is committed "to supporting a diverse community services sector and working with small organisations to ensure their viability and capacity."[1]

While it is widely recognised that small non-government organisations (NGOs) excel at delivering services to communities, many such organisations struggle with their back office functions and particularly the financial administration and financial management aspects of supporting the delivery of their core services. For this reason Matrix on Board ("Matrix"), NCOSS and Zurich Financial Services Australia Ltd have partnered to undertake this research. The research examines the feasibility of small NGOs sharing their financial administration and financial management functions. Potential models have been developed with the aim of finding means to ensure these functions are fulfilled in a way that maximises efficiency and allows small NGOs to focus on service delivery.

Most large NGOs have a substantial finance and management infrastructure to support their service delivery. However many small to medium organisations do not have such an infrastructure and their financial administration functions depend on project funding. Since such organisations are often forced to compete with larger NGOs their future viability will depend on how efficiently they are able to deliver their infrastructure functions. This project aims to find ways for small NGOs to achieve efficiencies in their financial management.

2.1 Methodology

The research for this project centred on consultations with two cluster groups of representatives from small NGOs in two different regions in NSW: south-west Sydney and the Central Coast. Participants were recruited by both Matrix and NCOSS through their networks within the not-for-profit (NFP) sector. A total of 30 organisations participated in the project.

In preparation for the consultations Matrix conducted 30-minute telephone interviews with each of the participants. The purpose of these interviews was to identify the participating organisation's needs and issues around financial management. Additionally, questions were asked about the organisation's attitude to sharing services and – if the organisation was not already sharing services – the participant was asked to comment on various aspects of hypothetical models. This process allowed Matrix to gain an understanding of how the participating organisations are currently handling the functions in question. It also contributed to the development of some preliminary models for use in the consultations.

Concurrently, Matrix undertook a literature review and conducted research interviews via telephone with key individuals who were identified as having specialised knowledge relevant to the project. We also contacted Council of Social Service organisations across Australia to seek examples of models. These various avenues of research also contributed to the development of the preliminary models that were used in the consultations.

During the consultations participants representing small NGOs worked through the preliminary models, scrutinising various elements of their structure and considering issues relevant to their implementation.

1 DoCS website: www.community.nsw.gov.au

In summary, this research was informed by data collected from the following sources:

- Relevant literature and reports in the not-for-profit sector;
- Telephone interviews with participating NGOs in advance of the consultations;
- Telephone interviews with key individuals identified as having specialised knowledge relevant to the project; and
- Consultations with two cluster groups of NGOs to workshop different scenarios and fine-tune potential models.

The resulting data is qualitative, empirical data rather than quantitative. The discussion in this report is based on our analysis of that data.

The interview and consultation process with all participants was effective in eliciting valuable information for the project, especially in relation to the practical aspects of implementing models. Matrix On Board wishes to acknowledge all participants who contributed to the research and thank them for their honest, constructive and thoughtful comments.

2.2 Definitions

For the purposes of this report we have defined certain key terms as follows.

Small NGO

A non-government organisation with up to 15 full time equivalent (FTE) employees.

Financial administration and financial management functions or "back office" functions

The functions involved in the financial administration and financial management of an organisation, defined for the purposes of this report as:

- bookkeeping,
- payroll,
- accounts payable and receivable,
- insurances,
- tax compliance,
- financial reporting,
- budgeting,
- financial planning,
- grant acquittals and
- audits.

Peak body

For the purposes of this report a peak body is defined as an NGO that exists to serve the needs of other NGOs, rather than individuals. Most peak bodies' members are from a particular subsection of organisations, for example those providing a particular type of service, or in a certain geographic region.

3 Background and literature review

This section describes some issues small NGOs currently face and gives some background to the practice of sharing "back office" financial administration and financial management functions as found in the literature and as observed in practice.

3.1 Context for Small NGOs

Small NGOs, defined as having less than 15 full time equivalent staff, are operating in an increasingly challenging context. The current funding environment has a strong theme of economic efficiency, as it is clear that "government has made a clear choice to introduce a competitive element into funding."[2] This competitive element potentially erodes the atmosphere of cooperation that facilitates service provision. Cooperation is not only ingrained in the spirit of the NFP sector, it allows organisations to operate more efficiently. Therefore small NGOs need to find ways of cooperating while still surviving in a competitive funding environment.

The burdens on small NGOs in terms of financial administration and financial management are significant. Funding bodies have stringent reporting requirements which are often onerous for a small organisation to fulfil, particularly if they only receive a small amount of funding. Over the years CPI increases in government funding have not covered the cost of changes affecting the sector. For instance, insurance costs for NGOs have escalated in recent years, but funding has largely remained stable. Organisations generally attempt to provide services at the same level, which means that their back office functions get eroded.

A 2005 study[3] found surprisingly little isomorphism (structural similarity) across a random sample of Australian NGOs. The author concluded that since different organisations still have many different ways of structuring their operations, "best practice … has not yet swept through the nonprofit world." This implies that "ultimately efficient and productive organisational methods have not yet been discovered, disseminated, and institutionalized."[4] This reinforces our finding that there is a lack of information on best practices for NGO financial administration and financial management, and that small NGOs have a significant need for such information and access to resources and expertise to help implement promising models.

The "Small Non-government Organisations Working Together" (SNOW) project in western Sydney was designed to explore the strengths, issues and challenges facing small NGOs in the Mount Druitt / Blacktown area. The project also identified a range of strategies to support small NGOs in responding to the challenges and to allow them to develop and enhance their potential. One of the key recommendations of this project was that government provide funding for the development of "reasonably priced bureaux services"[5]. Clearly this is another indication that the areas of financial administration and financial management provide significant challenges for small NGOs. It is therefore essential to explore options for how better to handle these functions.

Kohm (1988) also identifies a lack of information on existing models as a significant challenge to planning and managing any cooperative venture. "Without knowledge of the failures and successes of similar efforts, those involved in cooperative nonprofit ventures rely on trial and error."[6] This project is an important step towards developing a body of evidence-based information that will be

[2] NCOSS, 2005, p.5
[3] Leiter, 2005
[4] Leiter, 2005, p.27
[5] Bradfield-Nyland Group, 2004
[6] Kohm, 1998

of practical use to small NGOs seeking to improve the efficiency of their financial administration and financial management practices.

3.2 Origins of Shared Services

Although collaboration and sharing resources are approaches traditionally associated with the community sector, the concept of sharing services originated in the business sector. The idea is to consolidate activities that are usually spread across the organisation into a single business unit "in order to service multiple… partners at lower cost and with higher service levels."[7] Large corporations with many organisational divisions pulled certain business units out of the divisions. They consolidated these discrete business units into a single centralised business unit. In this way they were able to achieve cost savings. Initially the work involved was transaction-oriented services that were repetitive and similar for each business unit. Examples include financial services, information technology and human resources functions including payroll. Although the organisational divisions retained control of decisions, this arrangement achieved economies of scale through common systems and standards. This freed up their funds, energy and focus for the core business.

A current example of shared services in the private sector is that of Paragem Partners, which bought a business from Zurich Australia that provides back office services to financial planners. Small independent financial planners have compliance requirements that need a high level of expertise, as well as IT and research needs that are quite technical in nature. These needs are very difficult for small organisations to meet since they need a highly trained professional but only for perhaps a few days per month. Paragem is able to provide a bundle of services to such financial planners: Paragem do their compliance, provide software packages along with installation and support and act as a bridge between financial planners and the organisations that research fund managers. Additionally Paragem conduct conferences where financial planners can learn how to improve the value of their business and receive technical training on various products, and offer consulting services on how to improve a small business. Paragem allows small financial planning enterprises to access a level of expertise they otherwise would not be able to afford. The founding directors are both former Managing Directors of financial services companies. The services that they offer allow small financial planners to offload the functions that are essential to their business but challenging to undertake in-house. This example of outsourcing is one model of shared services in the business sector which is starting to see uptake in the NFP sector.

3.3 Shared Services in the Not-For-Profit Sector

The private sector shared services model has been adapted to the NFP sector in the United States with the development of "management service organisations" (MSOs).[8] These are organisations – usually NFP themselves – created by a group of NGOs to provide management services to all the organisations in the group. Usually the MSO model requires board and possibly staff involvement from each of the "owner" NFP organisations. There are almost 700 such MSOs operating in the US as NFP entities and receiving philanthropic support, as well as many additional management support providers like independent consultants, for-profit firms and government agencies.[9]

The increasing professionalisation of the NFP sector is a significant contributor to the growth of various kinds of organisations that support NFP infrastructure, such as MSOs. Professionalisation "refers to a shift away from amateur or personalized responses to needs or problems and toward technical and often standardized approaches to providing services that reflect expert knowledge gained through specialized training."[10] This is also reflected in the strong theme of economic efficiency that pervades the current funding environment in Australia. Although professionalisation of the sector was observed as early as the late 1800s in the US, it has accelerated rapidly in recent decades.

Aside from establishing specialised organisations to support NGOs in the NFP sector, there is an increasing trend for NFPs to find innovative ways to collaborate to share and reduce costs and improve efficiency. Kohm details a number of cases from the US, all of which "capitalize on the

7 Walsh and McGregor-Lowndes, 2006.
8 Walsh and McGregor-Lowndes, 2006.
9 Abramson and McCarthy, 2002.
10 Abramson and McCarthy, 2002, p. 343.

economies of scale of large organizations while maintaining the character, philosophies, flexibility, and community responsiveness of small ones."[11] One group of examples are co-location models that allow small NGOs to share some of their fixed costs. Another type of collaboration is contracting between NGOs, in which one provides back office functions to another – an arrangement that may result in a merging of administrative systems while retaining distinct governance.

A study in the United Kingdom has examined collaboration between large and small voluntary and community organisations, with a specific eye to the role of large NGOs in building the capacity of small NGOs.[12] The study found that there were mutual benefits to such partnerships. Smaller organisations benefited from access to the intellectual property of larger organisations, especially their systems, policies and resources. Large organisations drew benefit from closer connections with the community and with local service providers via the small organisations. All the organisations involved found that the partnerships increased trust between them and fostered a more collaborative approach.

There are also examples of sharing services within Australia. Outsourcing to a specialist service provider is quite common. An example from Tasmania illustrates a typical scenario. In this case a bookkeeper operating as an independent contractor does payroll, accounts, etc. for a range of disability service providers. He has specialised in this area and his client organisations rely on his expertise for taxation issues, payroll technicalities, knowledge of the Disability Service Providers Award, etc.

It is also becoming more widely recognised that there is great potential to achieve efficiencies when NGOs collaborate. The Queensland government has specific funding allocated through the Strengthening NGOs project (SNGO) for NGOs implementing shared and collaborative arrangements. This project aims to increase NGO capacity by reducing the administrative burden on NGOs. Three pilot multi-tenant service centres are being established in McKay, Toowoomba and Caboolture, with some variety in models around the extent of amalgamation. These are still in the setup phase and will be evaluated in 2006-07.[13]

The Regional Outreach Support Program (ROSP) in Cairns, Queensland trialled a partial co-governance and co-location model involving 4 partner agencies in the women's services sector. One of the partner agencies was the legal auspice for the shared entity, ROSP, which was run by a management sub-committee. The management sub-committee was made up of 4 coordinators and 4 committee members (one from each agency for both categories). The benefits of the trial included having one "front of house" contact point for referrals and phone calls. Co-governance created a new sense of identity in ROSP which was found to be a positive outcome: it raised the profile of women's issues and services in the area and was thought to have "the potential to be a powerful voice."[14]

Ross House in Melbourne is another example of a co-location model in action (it is not entirely dissimilar to Parkside on the NSW Central Coast, which is described as a case study in Appendix B). The RE Ross Trust purchased a building in inner Melbourne and renamed it Ross House. A 5 storey house, it has the capacity to house up to 60 organisations. Tenants are all community organisations and pay less than market rental rates for space in the building. There are additional facilities such as meeting rooms, photocopiers and faxes, which are also available to other organisations that are not tenants of the building. The Ross House Association is an incorporated body that runs the facility, and also fosters the development of community among the building's tenants. All the tenants are required to be members of the Ross House Association. An ongoing community consultation process was built into the planning stages.

These examples from the literature and around Australia highlight some key learnings for NGOs looking at implementing a shared services model, many of which are reinforced in the current research. These considerations are outlined in the section *Important Factors for Successful Implementation.*

11 Kohm, 1998.
12 Mitchell and Drake, 2005.
13 Queensland Government, Department of Communities.
14 Earles et al., 2005, p. 12.

4 Current practice among small NGOs in NSW

There are a range of different financial administration and financial management practices currently used by small NGOs in NSW. The most common model is to employ a part time bookkeeper, with hours typically ranging from just a couple per month to 2-3 days per week. The bookkeeper may be expected to undertake a range of additional administrative duties, or there may be an administrative worker who performs the more general administrative tasks. An organisation with such a setup would usually call in extra support around the end of the financial year, often requesting extra hours from the bookkeeper as well as bringing in an auditor or accountant.

In addition to this typical scenario, there are various sharing arrangements already being used by small NGOs. A few organisations outsource some functions such as payroll or bookkeeping to an off-site service provider or a larger NGO. In some cases this works very well, with management feeling that a burden has been lifted and that the job is being done by a competent person who possesses the required expertise. There have been cases of outsourcing that have not been successful, in which a payroll company consistently made mistakes in calculating pay.

Some organisations share a bookkeeper and/or administrative worker with other organisations, with varying degrees of success. In some cases the organisations involved feel that the situation is of mutual benefit and enables them to access expertise that they could not otherwise afford. In very few cases there is a feeling that one or both organisations' needs are not being met in a shared-worker arrangement. A sharing arrangement can also lead to confusion in terms of reporting relationships and "ownership" of staff.

4.1 Strengths

The primary strengths cited of current financial administration and financial management practices are the quality and dedication of individuals involved. Relationships are extremely important, and small NGOs rely heavily on networks of support.

The typical arrangement described above has some benefits. Often the bookkeeper tends to stay with organisations for many years. This can result in a highly competent individual in the position, who has built good relationships with the organisation's management and auditor. A good bookkeeper will usually develop systems over the years to make things run more smoothly. They may also have transferred some skills to the organisation's other staff, for example so that an administrative worker is able to do payroll if the bookkeeper is away.

Additionally, it is quite common for a bookkeeper to work for more than one small NGO on a part time basis. This allows for cross-pollination of ideas, for instance the bookkeeper may observe that one of their clients has particularly efficient systems or procedures, and could implement them within the other organisations they work for.

Where positive sharing or outsourcing arrangements exist, these are cited as enormously beneficial to the organisation as a whole and often very cost effective. Sharing arrangements that are successful have usually been properly researched, are built on existing good relationships where there is a lot of trust and have procedures and agreements in place that are very clearly documented and understood. For more detail about existing models of shared services see the Case Studies in Appendix B.

4.2 Weaknesses

It is clear that small NGOs face challenges in the areas of financial administration and financial management. Lack of expertise is something that many small NGOs face. Legislative responsibilities and funder requirements place a reporting burden on NGOs that is onerous for a small organisation to fulfil. Often the expertise required to meet the requirements is lacking within the organisation and expensive to purchase. In addition the expertise required for certain regular tasks such as payroll and bookkeeping often resides in just one staff member who is not always onsite. This dependency on one individual makes the organisation vulnerable.

An organisation with a system like the typical one described above is very dependent on the individual bookkeeper. Some do not have adequately qualified backup staff so the bookkeeper simply never goes on holidays for more than one week, in order not to miss a payroll day. The extra workload at the end of the financial year end is often a struggle. Small NGOs usually do not have the flexibility in their capacity to absorb the additional hours of work. Time in lieu is sometimes given instead of pay for the extra hours worked, which the bookkeeper then has trouble taking since they are so indispensable. Some organisations also rely heavily on their management committee and the treasurer in particular, to undertake extra hours of volunteer work around the end of the financial year end

Other challenges have to do with funding and capacity. Many organisations build administration costs of 10-25% into any project funding, although some – especially smaller organisations – feel that doing so may make their bid less competitive. There is a level of anxiety among small NGOs and a sense that funders are favouring larger organisations and are unwilling to fund the capacity of smaller organisations. Without adequate funding for core functions like financial administration and financial management, stability of an organisation is threatened. For example, it becomes difficult to retain staff when the position is unstable and has an uncertain future.

A challenge that small NGOs face with respect to capacity is the perception among funders that larger organisations are more efficient. Measuring organisational efficiency in this context is extremely difficult and even agreeing on a suitable definition is not straightforward. It cannot be stated as a fact that larger organisations are more efficient, however there is a definite sense within the sector that this perception exists among various funding bodies.

Responding to these challenges is something most organisations would like to do but either cannot afford to or do not know where to begin. Many – if not most – smaller organisations express interest in changing how they are currently handling financial administration and financial management. The evidence suggests there are better ways of handling these functions for organisations that are struggling, but often it is a matter of finding the time and resources to effect the change. There is a great need for guidance as to how better to handle financial administration and financial management.

This section outlines the dominant models that have emerged from the research and consultations with small NGOs in the two cluster groups. They are arranged in increasing order according to the level of integration of the organisations involved. For each model the benefits and risks to NGOs are outlined. Variations on the models are also discussed.

5 Models

5.1 Outsourcing to a Specialist Provider

A small NGO outsources its payroll, bookkeeping, accounts, tax compliance, financial reporting and audits. These functions are performed by a specialist provider of financial administration services. The books are done either onsite when the specialist provider visits at a set time, or offsite at the service provider's premises. They specialise in providing financial services to the NFP sector.

At the end of each pay period the manager electronically submits all staff timesheets to the service provider. The service provider performs the calculations and responds electronically with the details of the pay. The manager then makes the payments using internet banking.

At the end of the month the manager delivers the necessary documentation to the service provider, or the service provider comes onsite. The service provider does the data entry and bookkeeping (whether onsite or offsite). The manager receives a monthly financial report that also goes to the management committee.

At the end of the year the service provider transfers all the required information to the small NGOs auditor. The auditor spends 2-3 days working on the audit.

The NGO pays the service provider a fixed fee per month for these services.

5.1.1 Benefits

A primary benefit of outsourcing financial administration and financial management functions is that it relieves the NGO's staff of duties which are not part of their core mandate. Managers or coordinators who outsource these functions describe a feeling of relief that they do not have to worry about those tasks. Since many NGOs struggle with these functions, it is reassuring to know when they are being performed by a skilled professional. This frees up the manager or coordinator to focus on service provision. It also frees up any administrative staff to support program staff more effectively.

Outsourcing to a specialist provider allows a small NGO to access a level of specialist expertise that they otherwise would probably not be able to achieve. While some management committees have a high level of "financial literacy" this is not the case in all small NGOs. Most organisations would benefit from the expertise that a specialist supplier provides.

Contracting these functions to an external agency eases the burden on the small NGO to keep up with legislative changes, tax compliance issues, industrial relations, reporting requirements, etc. If the service provider specialises in NGOs then they are likely to be diligent about staying up to date on such issues. The NGO no longer needs to do the research themselves, although they should verify that the service provider does keep updated.

There is a perception that a higher level of service could be attained by outsourcing financial administration to a specialist. This is due both to the specialised skills that the external provider could bring to the task, and because the person performing these functions would not be distracted by other tasks, as is often the case when the functions are performed by a staff member who has additional responsibilities.

Outsourcing to a service provider organisation removes the dependency that many small NGOs have on a particular individual. While the functions may usually be performed by the same person, an organisation would always have an appropriately skilled backup if the primary worker was ill or otherwise unavailable. An employee of an organisation may also be more available to the NGO that could contact them via phone or email on any day, making them more accessible than a bookkeeper who is available only one designated day per week.

There are various advantages to having the outsourcing done either onsite or offsite. The benefit of doing the books offsite is that the small NGO does not need to provide space and equipment for an additional worker. However having the outsourcing done "in-house" is easier and more secure in terms of information transfer since all the records are kept onsite. Onsite outsourcing also has the benefit of giving management and staff regular face-to-face access to the specialist skills of the service provider. However since the provider only does their fixed tasks, the financial administration is kept discrete from other general administrative duties.

Another benefit of this arrangement is that some funders are encouraging outsourcing over hiring staff. Using contractors instead of employees may reduce the risk and liability for the NGO. Although the NGO's management committee is still ultimately responsible, the contractor's employing organisation (or the contractor themself, if independent) carries some of the liability.

5.1.2 Characteristics of organisations this model may suit

Almost any organisation could outsource their financial administration and financial management functions to a specialist service provider. The arrangement may be easier to set up for an organisation that is not too big, so that it does not become onerous for the manager to do the internet banking and so that the accounts are fairly easily transportable. In some instances, the specialist service provider can set up internet banking transactions and then nominated signatories log into the bank account to authorise payments.

5.1.3 Risks

One of the risks for NGOs outsourcing financial administration and financial management functions is that a typical bookkeeper may not possess the required specialised knowledge of the NFP sector. Many small NGOs have to produce different types of reports to meet various funder requirements, and legislative changes have brought increased complexity to issues such as salary packaging and taxation. Obviously it is essential that a service provider understand the legislative and reporting requirements to which NGOs are subject. It may be difficult to find an appropriately qualified service provider. Another risk is that the NGO may feel unable to afford such a service.

The cost of setup is a potential barrier to outsourcing for some small NGOs. As well as the time required to find an appropriate service provider, some organisations may need to spend some time or other resources to get their systems up to the standard required by the service provider. For example, they may need to move to standard formats for various reports and forms or put some new procedures in place.

Some organisations may feel vulnerable with their books out of their immediate control. Confidentiality and security are important issues to address. There must be guidelines and procedures in place to ensure that these are maintained, especially when transferring documents or other information. An onsite outsourcing arrangement may be more comfortable for organisations that are concerned about transferring documents.

If an organisation is outsourcing financial administration and financial management functions they risk confusion about where financial responsibility lies. It is essential that both the board and management understand that they are still responsible for the financial outcomes of the organisation, that they are simply outsourcing the processing functions required to track the finances.

Another risk of outsourcing is that it may diminish the capacity of the organisation as a whole. If the organisation had a bookkeeper who also did other tasks around the office they may lose that extra support if they let the bookkeeper go in order to outsource the financial administration functions. This risk may be addressed by determining how much of the staff member's time was spent on other tasks, and trying to retain them for those hours or hire an administrative worker.

5.14 Variations

There are different ways to outsource financial administration and financial management functions. The organisation needs to decide which functions would be beneficial to outsource, and which they would prefer to keep in house. These decisions will be very individual, depending on the nature and structure of the organisation. Another decision is whether to outsource all functions to the same service provider, or whether to use separate contractors for different functions – e.g. a specialised payroll company, as well as a bookkeeper. These decisions will depend most on the types of service providers available in the organisation's region.

Another variation of this model is for a group of small NGOs to group together into a consortium to purchase services in bulk from a specialist provider. The advantages are that this might achieve cost savings for all the participating organisations. They all may also benefit from reviewing their systems to bring them in line with the service provider's requirements. This will likely result in the sharing of some best practices, as systems or procedures that are working well for one organisation can be implemented in the others The main risk of a consortium is the challenge of maintaining it: a great deal of careful thought and effort is required to set up all the appropriate agreements. Additionally, time will have to be allocated for maintaining the relationship. Participating organisations should establish procedures to facilitate open communication and ensure that they have fair and agreed upon conflict resolution processes.

5.1.5 Large / Small NGO Partnership

A small NGO running just a few programs operates in the same region as a larger NGO. The larger organisation has well-established systems to handle all its financial administration and financial management functions. It likely has a bookkeeper who is close to full time, at least one administrative worker and has access to an accountant. The small NGO, on the other hand, struggles with these functions and in particular has difficulty retaining qualified staff.

The large NGO offers to do the small NGO's payroll, bookkeeping, accounts, tax compliance, financial reporting and grant acquittals on a fee for service basis. The fee is reasonable for the small NGO because they are accessing the existing capacity of a larger organisation. For example, the larger NGO was already sending their bookkeeper for MYOB training each year. Since this is a cost they have already budgeted for, they do not charge the small NGO for a portion of the training. The smaller organisation pays a fixed monthly fee for the regular financial administration functions. Other tasks that occur on a more irregular timetable like grant acquittals, funding applications, etc. are charged at a reasonable hourly rate. The smaller organisation can also access the larger organisation's equipment such as colour printer and photocopier, binder, etc. for a nominal fee.

The smaller organisation may need to change some of its systems to make it easier for the larger organisation's finance department. For example they may be required to use standard timesheets, change their accounting software, use standardised forms, etc.

5.1.6 Benefits

The primary benefit of a large / small NGO partnership is that the smaller NGO has access to the larger organisation's more highly developed systems and specialised skills (such as an accountant, submissions writer, established accounting procedures, etc.). It may also have access to equipment that it would otherwise be unable to afford. Research from the UK found that smaller NGOs benefited from access to the intellectual property of larger organisations, their systems, policies and resources.[15]

This model may also appeal to small organisations that wish to retain their autonomy and identity. Since they are merely purchasing services for a fee, they do not risk being "swallowed" by the larger organisation. However the access to the larger organisation's systems and expertise reduces the stress and pressure on the smaller organisation's management, freeing them up to focus on service delivery. Just like in the outsourcing model, this situation takes the financial administration functions that small organisations find challenging and gives them to a specialist who is better able to handle them.

There may also be benefits to the larger organisation. Partnering with a small NGO may give them closer connections with communities and with local service providers.[16] If they partner with a number of smaller organisations the fees will allow them to increase the capacity of their financial administration division. They may be able to purchase equipment or expertise that they otherwise would not be able to afford. For example, if they employed a part time accountant or bookkeeper, outsourcing some of this person's time (while keeping them onsite) makes the person more available to the larger organisation.

Both organisations may benefit from the relationship described in this model. While a good relationship must exist for such a partnership to come about in the first place, entering into a partnership is likely to enhance the relationship. It may give rise to opportunities to collaborate on service delivery. Research from the UK has found that partnerships

15 Mitchell and Drake, 2005.

16 ibid

between large and small NGOs increased trust between the organisations and fostered a more collaborative approach. [17]

5.1.7 Characteristics of organisations this model may suit

The most important factors for organisations considering a large / small NGO partnership are that there is a good relationship between the two organisations, and that their philosophies match. The organisations must share similar vision and values in order for a partnership to work. A partnership also requires some built up trust, so in the absence of a pre-existing relationship the organisations would need to find ways of building up the required trust.

A partnership may work best when the organisations involved offer services that are complementary but not too similar. This removes the possibility of competition between the organisations. However organisations with complementary services (e.g. different services aimed at similar or overlapping client populations) are likely to work well together.

In terms of operational factors, a smaller organisation considering partnering with a larger organisation will need to ensure that the larger organisation does in fact have the necessary skills, expertise and systems in place to perform the functions at a level that will make the partnership worthwhile. The smaller organisation may also need to have systems that are functioning at a certain level of efficiency – or bring their systems up to a certain level – in order to be able to outsource some functions.

5.1.8 Risks

One of the risks involved in a partnership between small and large NGOs is that of "cultural seepage," the fear that the organisational culture and values of the larger organisation may over time start to dominate the smaller organisation. Small NGOs may feel that a partnership with a larger NGO could threaten their autonomy and hamper their ability to respond effectively to their clients and the communities they serve. They may fear that their community (and donor base) could start to view them as less of a local, community oriented organisation if they associate themselves with a larger NGO. This risk would need to be addressed by establishing clear boundaries for the partnership from the outset, and carefully specifying the role of each organisation in the relationship. Generally, a partnership is also more likely to work more harmoniously if the organisations involved share similar values and philosophies of service delivery.

When outsourcing financial administration to another organisation, the smaller NGO risks the security of its information. Systems and procedures would be in place to ensure the confidentiality of the smaller NGOs financial information. This may be difficult if they are using staff of the larger NGO, and could become problematic if the two organisations are competing against each other for funding or service delivery contracts. Competition for funding between the small and large NGOs may pose a threat to forming a viable partnership in the first place.

Another potential risk that must be considered concerns the mission of the larger NGO. Generally NGOs exist with a mission to respond to their clients' needs. If such an organisation starts providing services to a smaller NGO in return for fees, this function is a deviation from its core mission. An NGO considering taking this path would need to consider the impact of such an activity on the organisation. It may be that supporting a smaller NGO that provides a complementary service is an indirect way for the larger NGO to respond to certain needs of individuals and communities, but it may not always be the case. Some variations on this model avoid the dilemma of "mission drift".

5.1.9 Variations

There are some variations on this model that have considerable potential. Generally they involve different kinds of larger organisations, so that rather than purchasing services from a larger NGO the small NGO purchases services from another organisation with appropriate capacity. For instance, some NGOs in the Sydney region are considering outsourcing their payroll to the local council. It is possible that even more financial administration tasks (such as accounts, bookkeeping, etc.) could be outsourced to the local council. This arrangement retains the benefit of accessing a larger community organisation's systems and expertise, but avoids the risk of "mission drift" for a large NGO. Using local councils has the added benefit that they are community organisations but do not compete for funding from the same sources as small NGOs, so in many cases the risk of competition is reduced.

[17] Mitchell and Drake, 2005.

Peak bodies have also been identified as organisations that could provide financial management services to small NGOs on a fee for service basis. The initial research phase of this project raised the possibility of peak bodies providing practical services to NGOs, and after testing during the consultations it is considered a feasible option. Peak bodies already have the contacts and networks, and could build some capacity as "NGO business centres" offering various services that small NGOs could purchase for a fee. A precedent has been set in the area of training, with a number of peak bodies providing training to their member organisations and beyond. In the US and the UK peak bodies tend to function as "sector infrastructure development bodies" rather than just advocacy bodies, as they are in Australia.[18] A challenge that would have to be addressed if this scenario were implemented is to ensure that those small NGOs that fall between peak bodies and do not quite "fit in" with a particular one are still able to access services. For such organisations NCOSS may be the only peak body with which they associate.

5.2 Co-location and forming a Company

A group of small NGOs are running complementary – but different – programs within the same region. There are various networks of working relationships among the agencies. For various reasons they decide to co-locate. As well as co-locating they essentially form a consortium, which means that a group of agencies develop formal documented agreements about the role of each agency. Additionally they form a company to administer the building.

First they find suitable premises that the company rents (or buys if a capital appeal is able to raise sufficient funds). The company has a board on which each of the participating NGOs is represented. The board oversees all decisions relating to the premises and any disputes among the occupants are referred to the board.

The company hires a facility manager to look after all the common areas of the building and practical aspects of maintaining the premises: kitchen, bathrooms, security, cleaners, maintenance, etc. The company also employs a bookkeeper and some administrative workers who receive training so they can make referrals to the appropriate agency. They occupy a shared reception area that serves all the occupants of the building.

Each organisation pays rent to the company for the area they occupy and also outgoings. The outgoings portion covers not only utilities, rates, etc. but also contributes to the facilities manager's salary, proportionate to how much space they occupy. Also included in the outgoings is rent for the reception area and a few hours of the administrative workers' time. It is estimated that the administrative workers spend, for example, 20% of their time on reception duties so this cost is added to the outgoings, and accordingly it is split between the organisations in proportion to how much space they occupy in the building.

The participating organisations pay for the bookkeeper and administrative staff according to how much time they use. Some organisations have a greater need for administrative support than others, and there is some flexibility in how the hours are allocated. The bookkeeper is also charged to each organisation on an hourly basis. Timetabling for the shared staff (administrative workers and bookkeeper) is done by the facility manager and the board of the company oversees the process to ensure it is working smoothly, and intervenes to resolve any disputes relating to how the staff hours are allocated. If there is a need, the company may occasionally hire extra temporary administrative staff in order to increase the number of hours they can provide to the tenants.

The company is able to negotiate bulk purchase agreements on insurance, stationery, IT, etc. The co-located agencies also negotiate a bulk rate from an auditor, and the bookkeeper transfers all their information directly to the auditor at year end.

5.2.1 Benefits

This co-location model has many potential benefits for participating organisations. There are potential cost savings through sharing equipment, sharing space such as common areas (kitchen, etc.), bulk purchasing and sharing other fixed costs such as reception. Also since the company employs a bookkeeper and administrative workers the individual organisations no longer need to perform these functions using their own staff. This frees up their staff and management to focus on service delivery, and creates efficiencies by handing financial administrative functions to specialised staff. There may also be efficiencies

18 Walsh and McGregor-Lowndes, 2006.

achieved by moving all the organisations to similar administrative systems, which may consist of more streamlined processes than they had previously.

This co-location model may appeal to many small NGOs because it allows them to retain their individual autonomy. Each agency continues to operate with its own management committee as it did before, it just pays rent and outgoings to the newly formed company. The primary change is that instead of employing a part time bookkeeper and administrative staff each NGO accesses the "resident" bookkeeper and administrative workers and is invoiced at an hourly rate. This is probably a better arrangement for many organisations as their bookkeeper becomes more accessible – being onsite all the time – if they have queries, and the flexible arrangements are likely to suit small NGOs with fluctuating workloads.

Co-location also has benefits relating to service delivery. It becomes easier for participating NGOs to offer each other peer support and they have constant onsite access to the expertise of the other partner agencies. Co-location facilitates collaboration and better communication among agencies. It is also beneficial for clients to co-locate complementary services. They may find it easier to access multiple services they require if they are all on the same premises (a "one stop shop"), and co-location would also facilitate inter-agency referrals. Co-location also reduces the isolation of small NGOs whose workers may otherwise be alone for extended periods, which could be a security risk.

Another benefit of this model is that forming a company to oversee the physical premises transfers some of the risk to another entity than the small NGO.

5.2.2 Characteristics of organisations this model may suit

A co-location model is most likely to work for organisations that have a similar philosophy and whose vision and approach to service delivery are compatible. It is probably also a better option for organisations whose services are not in direct competition. Organisations whose services are complementary rather than the same are not only better placed to collaborate, it is also advantageous for clients if they can access a range of related but distinct services in the same location. If their client needs and profile are similar then co-location can enhance service delivery. Organisations that have participated in joint service delivery projects or those that refer to each other may already have a good working relationship that could form the basis for exploring the possibility of co-location.

5.2.3 Risks

In this model the company runs fairly high risks since it holds the lease for the building. The company is vulnerable if one of the participating organisations loses funding. These risks must be carefully managed, with plans for how to manage various eventualities. It is important to ensure that the insurance and occupational health and safety policies of the company and the co-located NGOs are consistent and match up without leaving any gaps.

From the clients' perspective there are some potential risks in implementing this model. It is important to ensure that the co-locating organisations' client groups are compatible. As an extreme example, it would be undesirable to co-locate an offenders' rehabilitation program with children's services. Another consideration from the clients' perspective is the physical location. Considerations like the location's accessibility by public transport and proximity to other services should be taken into account.

In implementing this model it is essential to articulate clearly all the relationships, boundaries, duties and responsibilities of all the organisations involved as well as the company. The legal and functional responsibility of the company must also be clearly defined. All processes and procedures must be clearly established from the outset and must be transparent, to build trust among participating organisations. There must be procedures in place to address security and confidentiality of information.

It is also important to establish conflict resolution procedures for resolving disagreements between co-located agencies. While there is a potential risk of a clash in organisational cultures, this can be mitigated by careful selection of participating organisations and by diligence during the planning and setup phase. Organisations will need to recognise existing relationships and power structures and work within those to create a robust and enduring partnership.

Organisations that have decided to co-locate face certain risks during the setup phase. Aside from time involved in the organisational planning work already described – which is considerable – the cost of fitting out new premises may be prohibitive. It could also be difficult to find an appropriate location that all the participating organisations agree on.

5.2.4 Variations

The variations on this model have to do with the degree of linkages between the co-located agencies. With weaker linkages, there could be less of a role for the company. Its function could be limited to the administration of the building, and participating organisations could continue to make their own arrangements for bookkeepers, administrative workers, etc. While it makes sense to share at least some reception functions (and of course the facility manager), maintaining their former arrangements for some of their financial administration may be a way for some organisations to ease into a closer sharing arrangement. This appears to be what is happening at the Parkside location (see Case Studies in Appendix B), where more organisations are starting to use the financial services of the lead agency.

Going in the other direction, organisations that find this model is working well may decide to amalgamate their back office functions altogether. They may transfer more of their staff to the employment of the central company to facilitate payroll, shared insurance, etc., and the company may start to have a role in service delivery. The company could manage the finances for all of the co-located agencies. While this variation may achieve some efficiencies it carries significant challenges because it may be perceived as threatening the autonomy of participating organisations. It also makes the company even more vulnerable if an organisation needs to move out of the premises, and it may be more difficult to find a replacement tenant who would be willing to participate in such a close sharing arrangement.

5.3 Umbrella Organisation (Quasi Amalgamation)

A group of NGOs within a region all provide similar services that are complementary yet distinct (for example, they may all run women's services but each organisation provides a different type of service). They decide to form an umbrella or auspicing organisation to handle all their governance and back office functions, while retaining the distinct "front of house" identities of their respective services.

The organisations form a joint management committee by amalgamating their existing management committees. They place emphasis on finding a range of dedicated and skilled individuals representing the communities in which all their services operate.

The umbrella body employs an administration manager who oversees all the back office functions for the service providing agencies. All the funding flows through the umbrella organisation which effectively purchases services from the agencies. Each agency is run by a coordinator responsible for the programs, who reports to the new amalgamated management committee.

The umbrella organisation also employs a bookkeeper and some administrative staff that the partner organisations share according to a roster. There is some flexibility in the roster so that one organisation can negotiate with another for some of their hours. Each organisation pays for the hours they get from the centrally employed staff.

The umbrella organisation does payroll for all the partner organisations. It is effectively the employer of all the staff, although their day-to-day supervision is provided by the coordinator. The umbrella organisation also handles all the insurances, bookkeeping, accounts and financial reporting for the service providers. Each coordinator does their own budgeting, financial planning and funding submissions, working closely together with the administration manager.

5.3.1 Benefits

The primary benefit of this model is the increased stability and viability that it can provide for small NGOs. By joining together with other small NGOs to build a more stable infrastructure, the participating agencies increase their own ability to survive in a challenging and competitive environment. The umbrella organisation can have the strength and voice of a larger NGO in terms of applying for funding, political voice, etc. However in the model described, the services retain their "front of house" identity and their close connections with the communities they serve.

Centralising the financial management functions and having a manager to oversee all the administration enables program staff to direct their energy and attention to service delivery. Efficiencies will likely result from having specialised staff to undertake the financial administration and financial management functions. As the partner organisations move to shared systems they can share best practices and achieve more efficient processes.

Sharing a bookkeeper will also be beneficial for the partner organisations. Since the position has more hours than if just one organisation was the employer, it is a more stable job. This should make it easier to fill with a qualified professional. The partner organisations will probably also have greater access to the bookkeeper than if they employed someone just one day a week, since the person will be contactable when they are working for the other partner agencies.

Consolidating the management committee may also have benefits. It could lead to more effective governance, since many very small NGOs have difficulty attracting and retaining management committee members. If they operate in the same communities they may be competing against each other to recruit from a small pool of potential management committee members. If only one committee needs to be recruited instead of several distinct ones, the umbrella organisation may be able to attract a management committee with better representation of the community and higher skill levels, since these individuals need not be spread across several organisations' committees.

This model is also beneficial for smaller NGOs because it shares accountability and offloads some of the risks from the small organisation to the umbrella organisation. It is a very good model for facilitating agencies working together, since their finances are already merged so joint funding applications would be easier.

5.3.2 Characteristics of organisations this Model may suit

As for any sharing arrangement it is important that participating organisations share a similar philosophy, and that their vision and approach to service delivery is compatible. This model would work best for organisations that have a good long term relationship and are comfortable working together without fear that one will take over another. It is also desirable that organisations provide complementary services that are not in direct competition with each other.

In terms of practical logistics, it may be easier to implement this model with organisations that are similarly funded, although with services distinct enough that they are not in direct competition for funding. If they have similar work practices, procedures and systems in place this would also make the setup phase easier. Running the shared back office may also be simpler if the organisations are not located too far apart. They do not need to be co-located, but it would be less onerous for shared staff if the travelling distance between partner agencies is limited and reasonable.

5.3.3 Risks

One of the biggest risks of this model is that small NGOs could feel that their identity and autonomy are threatened by the shared governance and amalgamation of the back office. They may also feel that by sharing a management committee they could lose the focus on their community. It is important that each partner agency is represented on the umbrella organisation's management committee.

Taking the time to clarify and document the responsibilities of each agency and of the umbrella organisation is essential. The time involved in this work may be a challenge, especially for very small NGOs with limited resources, but it is essential that these details are worked out from the beginning. Organisations that do not take the time to do the work properly could jeopardise the future of the whole arrangement. The planning process should also cover logistics, since information management across different physical locations may be difficult.

Since the partner organisations are running programs and the umbrella organisation is responsible for governance and the organisational operations, risk management responsibilities need to be clearly delineated. It is also important to be clear on the various agencies' liabilities if there is shared insurance, and to ensure that occupational health and safety policies are complete.

There are a few potential risks involved with this model around funding. The partner organisations may be vulnerable if one of them loses funding. It is important that such eventualities are considered during the planning process. There is also a risk that partner organisations may need to compete against each other for funding. There would need to be agreements in place to ensure that there is fair representation for each service. Additionally, it is important to have rigorous procedures in place to ensure the confidentiality of each organisation's financial or otherwise sensitive information.

One risk that small NGOs may face if they implement this model is that they could lose some organisational capacity if they no longer employ a bookkeeper. It is common for small organisations to have a bookkeeper who also undertakes other tasks around the office. If they move to a partial amalgamation model and instead have a few hours of a shared bookkeeper, this may result in fewer actual “person hours” in their office. This may need to be addressed with extra time from shared administrative staff, or by revising the administrative processes so that more tasks can be handled by the umbrella organisation.

5.3.4 Variations

A variation that may appeal to certain NGOs is to run this model without the creation of another legal entity and without the amalgamation at the governance level. This variation could also be used as a prelude to a closer sharing arrangement. Essentially it would be a consortium – in which a group of agencies develop formal documented agreements about the role of each agency. A lead agency could hire the shared bookkeeper and administrative staff and contract them out to the other partner agencies according to the agreements in place. The agencies could trial things like applying jointly for funding, with a lead agency managing the finances for the funding. This arrangement may achieve some of the efficiencies of the umbrella organisation model, but may pose less of a threat to the autonomy of participating NGOs.

Another variation of this model is complete amalgamation, in which partner organisations relinquish their separate identities and form a new organisation. Just like the umbrella organisation model, this variation would require an enormous amount of trust and very strong relationships between the participating organisations. It has the benefit of being a less complex arrangement to administer than the umbrella organisation model, but this is at the expense of the “front of house” identity of the service providing organisations.

5.4 Non-model-specific Issues

There are a number of benefits and risks of entering into any kind of shared services arrangement that are not specific to any model. One factor that needs to be considered is the organisation’s management committee. Management committees vary enormously across the NFP sector in terms of their composition and the expertise represented. They also vary in their degree of involvement with the daily management of the organisation. As such, some management committees may be at the forefront of initiating change for their organisation, but others may be more resistant to change. A situation may arise in which employed management wish to implement a particular model but have trouble convincing the management committee. The attitude and involvement of the management committee are very individual depending on the organisation, but they are considerations that must be managed.

A benefit of going through a change process is that it may highlight governance issues that need to be addressed. The process may reveal strengths and weaknesses of the current management committee. It is valuable for an organisation to have this knowledge, as it may allow them to build on the strengths and address the weaknesses. Additionally the benefits and drawbacks of current systems, policies and procedures will become clearer as the organisation considers different ways of doing things. Awareness of these issues is beneficial for the organisation and although it may be a difficult process, it is a healthy one for an organisation to go through.

An organisation considering changing how they do their financial management may need to clear the changes with their funder(s). For instance, a funder may have allocated a certain portion of a grant for wages, but the small NGO may wish to reallocate some of that portion to contracting fees for a service provider (if they are outsourcing some of their back office functions). Such a shift may need to be approved by the funding body, a consideration that must be taken into account during the planning stages.

For any significant change to occur there is a cost in time and other resources. A risk that small NGOs face is that if they are unable to devote enough resources to the change management process and initial setup phase, the whole arrangement may be jeopardised. It is critical that time is taken to clarify the roles and responsibilities of all parties involved, and to establish good policies and procedures including conflict resolution procedures. This risk must be carefully managed to ensure that all the necessary work is done in the initial phases, so that the new setup has a good chance of succeeding.

5.5 Regional Variations

The current research centred around two cluster groups, one in south-west Sydney and the other on the NSW Central Coast. This was intended to identify whether there were any variations between organisations based in regional or metropolitan areas. Overall there was a great deal of correlation across the two cluster groups, with participating organisations identifying many of the same issues and concerns.

There were only some fairly minor variations. When discussing the role of peak bodies, the regional cluster group expressed a preference not to align with Sydney-based peak bodies. It was important to them to be represented by an organisation that is in touch with the local communities in their area, rather than focused on the capital city's metropolitan region. The regional group also identified distances and logistics as a concern in various partnership or outsourcing arrangements. If the shared services arrangement requires transfer of documents between partner agencies or from the NGO to an external service provider then the distances between the organisations may add extra challenges. However this concern is not unique to a regional setting, since many metropolitan NGOs have considered partnering with other organisations that are geographically removed from their own location. Distances and logistics are one of the issues that will need to be addressed in any shared services arrangement.

It should also be noted that this research did not include a cluster group from a remote or sparsely populated area. Therefore there is no data from such an area and this research cannot speculate on variations between remote and more densely populated areas.

6 Important factors for successful implementation

There are several factors to consider when implementing a shared services arrangement that have emerged from both the research and the literature and warrant special emphasis.

The importance of relationships and trust cannot be overstated

In every instance of a successful shared services arrangement the participants cite the relationships between the organisations as critical to holding the arrangement together. This is true whether the relationship is between a group of small NGOs, a small NGO and a larger organisation from whom they purchase services or a small NGO and a company that provides financial management, payroll or bookkeeping services.

The ROSP trial in Queensland found that the model is “held together by goodwill” and is completely dependent on “high levels of trust and confidence in each other.”[19] This was reinforced by the cluster groups consulted in this research project and the research literature. Any organisation that had participated in a sharing arrangement of some kind emphasised that the arrangement could not have been successful in the absence of the trust that the organisations shared. Maintaining the good relationships between participants is essential if the sharing arrangement is to survive.

A UK study found that one of the greatest barriers to partnerships was the lack of time and / or resources for developing and maintaining the partnership.[20] Even if there is an existing good relationship between the organisations involved, it usually involves a certain investment of time to maintain the relationship and resolve disputes. In the NFP sector, where resources are scarce, finding this time can be a challenge, although it is critically important for the survival of a shared services arrangement.

There is no one-size-fits-all approach

Shared services arrangements tend to grow organically out of existing relationships and networks. Each organisation is unique, as is each community. An arrangement that works for one group of organisations may not necessarily work for another. Organisations or communities that are interested in entering into a shared services arrangement of some kind will need to look carefully at their existing relationships and the nature of the organisations involved. Their unique situation and characteristics will help to determine what sort of shared arrangement might work for them.

Mitchell and Drake[21] found that the models and structures of the large / small partnerships were varied and not easily replicable. They were mostly built on existing relationships and past experiences of working together. This reflects our finding from the research with the cluster groups that sharing arrangements are highly relationship based and tend to grow organically out of past collaborations. This study also highlighted the importance to a successful partnership of shared values and a shared vision among partner organisations.

To ensure the success of a shared services arrangement you must do the work during the setup phase.

The critical importance of taking the time during the initial phases of a shared services arrangement to set it up properly cannot be overemphasised. This was reinforced not only throughout the literature but also by every organisation that had participated in any sharing arrangement.

The ROSP trial in Queensland[22] emphasised the importance of specifying areas of responsibility, authority and ownership in the setup stages.

19 Earles et al., 2005, p. 11.
20 Mitchell and Drake, 2005.
21 Mitchell and Drake, 2005.

They found it beneficial to think through how these divisions would work in practice, and to incorporate that perspective into their planning. The UK study into large / small partnerships[23] also found that the later success of such a partnership is critically dependent on doing the development and setup properly.

The reality for small NGOs is that "tying one organisation's fate to another can be a frightening process."[24] This reinforces the importance of openness and honesty throughout the setup process and clear delineations of responsibility and authority. There should also be processes built into the arrangement to ensure that the relationships between participants are maintained. Any sharing arrangement must also have clearly established dispute resolution procedures and mechanisms to protect the confidentiality of participating organisations' information.

Taking the time and doing the work during the setup phase of a shared services arrangement is absolutely necessary for the future success of the arrangement. However finding the time and resources to do it properly can be so challenging for small NGOs that it often forms a barrier to entering into an arrangement that may be better for them in the long run.

Small NGOs need "how to" information and expertise.

One of the most significant barriers to sharing that emerged from the cluster groups was that small NGOs lack information about how to proceed and the expertise to carry through the change process. The majority of the organisations struggled with their financial administration and financial management functions in one way or another, and almost all of them expressed interest in trying more efficient models to handle these functions. However most of them did not know how to begin.

Lack of information on existing models is a challenge that has also been identified in the literature: "without knowledge of the failures and successes of similar efforts, those involved in cooperative nonprofit ventures rely on trial and error."[25] Often, even if a small NGO has a particular model that they wish to implement, they do not know how to proceed and cite a need for support and guidance as they go through the setup process. The NFP sector needs more freely available information about successful shared services arrangements, and tools to help small NGOs implement them.

22 Earles et al., 2005.
23 Mitchell and Drake, 2005.
24 Kohm, 1998.
25 Kohm, 1998.

7 The way forward

The research suggests a number of ways to progress these findings on behalf of small NGOs. Further work could be undertaken in the following areas:

1 Providing NGOs with information about potential workable models for sharing financial administration and financial management functions.
2 Developing tools to provide NGOs with guidance on how to implement the various models. For example, a "start up kit" for each of the four models. Such a kit could include checklists, examples of documents such as memoranda of understanding, sample timelines and other tools to guide organisations through implementing the model.
3 Funding pilot projects of the various models detailed in this report. Pilots should ensure that the setup phase is adequately resourced, with time allocated to maintain the relationships and evaluate progress.
4 Linking small NGOs with other organisations that have been through similar processes, or with individuals whose knowledge could help them as they implement a shared services arrangement.
5 Exploring the option of interested regionally based peak bodies providing affordable financial administration/management services to small NGOs in their regions.

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9 Appendix A:
People contributing to the research

The following people attended the south-west Sydney consultation:

Name	**Organisation**
Nouha Achmar	Rockdale Community Services
Carolyne Banados	Liverpool Women's Resource Centre
Donna Crawford	Wingecarribee Family Support
Deborah Deering	Family Development Services
Sue Dixon	Phoebe House
Tanya Eades	Outer Liverpool Community Services
Jayne Foster	Outer Liverpool Community Services
Leah Godfrey	Western Sydney Community Forum
Beth King	TRI Community Exchange
Marnel LaGarde	Parramatta / Holroyd Family Support Services
Jane McIvor	Macarthur Community Forum
Katherine Moores	Telopea Family Support
Tracy Phillips	Joan Harrison Support Services for Women
Veronica Riddell	Family Worker Training & Development Programme
Lee Rowel	Community Links Wollondilly

The following people attended the Central Coast consultation:

Name	Organisation
Seanne Colbert-Smith	Family Support Centre
Carol Fraser	CASSY for Youth
Kate Hewitt	Kamira Farm
Maryanne Housham	San Remo Neighbourhood Centre
Alan Hurley	Regional Youth Support Services
Adele Johns	Central Coast Voluntary Treasurers Support Service
Joan Jones	Wyoming Community Centre
Kim McLoughry	Regional Youth Support Services
Nancy Nicholson	Central Coast Community Council
Laraine Sieff	Gosford / Narara Neighbourhood Centre

The following people were interviewed by telephone:

Name	Organisation
Francine Bartlett	Wingecarribee Family and Community Centre
Linda Beltrame	Alcohol and Drug Foundation NSW
Paula Chegwidden	Granville Multicultural Centre
Maggie Frawley	Heartkids NSW
Linda Marasonet	Bookkeeper for several small NGOs
Tirrania Suhood	Blacktown Alcohol and Drug Family Services, and Voice for SONG (Small Organisations Non Government)
Jackie Wilgress	Family Worker Training & Development Programme

The following people were interviewed by telephone as part of the research phase, or provided other input via email or telephone:

Name	Organisation
Lynn Bearlin	Manager NGO Program, Sydney South West Area Health Service
Wendy Earles	James Cook University
Scott Forsdike	Queensland Government Department of Communities
Linda Frow	Senior Policy Officer, Council of Social Service of NSW
Leslie Garton	NGO Coordinator, NSWHealth
Ian Knox	CEO, Paragem Partners
Irena Liddell	Northside Community Forum
Jenny Onyx	Professor, University of Technology Sydney
David Owen	Tasmanian Council of Social Service
Allan Raisen	Director Service Funding Projects, NSW Department of Community Services
Mark Shervashidze	Director of Partnerships and Planning, NSW Department of Community Services
Mark Wischnat	Community Sector Development Resource Worker, Queensland Council of Social Service

10 Appendix B:
Research tools

10.1 Interview Questions for Consultation Participants

- Could you briefly describe how your organisation handles financial admin functions? These include:
  - bookkeeping
  - payroll
  - accounts payable & receivable
  - insurances
  - tax compliance
  - financial reporting
  - budgeting
  - financial planning
  - grant acquittals
  - audits
- In these areas, what is working well for you? Do you have a sense of why it is working well?
- Where is your organisation straining, what are the challenges you face in these areas?
- How have you responded to these challenges, what strategies have you tried? How have they worked out?
- Have you tried sharing any of these functions with another small organisations? If so, what does the model look like? What were the benefits and challenges you encountered in implementing that model?
- Depending on their situation, possible hypothetical questions, e.g.
  - If you were to share functions, how would you choose which organisations to share with (geographical proximity / similar services / common client base / other)?
  - Can you think of any specific organisations you might want to share functions with, and if so why would you choose them? What is the nature of your organisations relationship with them?

10.2 Interview Questions for Research Phase

The following questions were used as a basis for discussion in the interviews conducted as part of the research phase:

- What do you consider to be the key issues facing small NGOs around financial administration and management?
- Do you know of any existing models for small NGOs sharing financial admin functions?
  - Flesh out in detail, including possible variations.
- Are these hypothetical or have they been implemented? If the latter, what was learned from the implementation? (benefits / challenges)
- Do you know of any relevant literature we should look at?
- Do you know of any other academics or practitioners we should speak with?

10.3 Consultation format

- Overview of project, including:
  - Define financial administration and financial management functions
  - Outline key themes from phone interviews
- Present hypothetical scenarios in detail, and identify possible variations:
  - Large / small partnership
  - Outsourcing
  - Umbrella organisation / amalgamation
  - Co-location
- Break into groups and work on one scenario per group to identify:
  - Potential benefits
  - Potential risks and how to manage them
  - Whether it would be a feasible option from which your organisation could benefit
  - What would be the challenges of implementation, and how could they be managed
  - What would be the advantages to the organisation
  - What would prevent your organisation from implementing this model
  - How could the model be adjusted to suit your organisation better: e.g. which functions to outsource, which organisations to partner with, how to split functions between an umbrella organisation and partner organisations, etc. [questions were designed specifically for each scenario].
- Report back from groups, and discuss each model as results are presented.
- Wrap up.

11 Appendix C: Case studies

11.1 Kamira Farm: Outsourcing

Kamira Farm is a residential treatment centre for women with alcohol and other drug problems. The organisation has 12 staff with a total of 7.5 full time equivalent. Among the employees is an administrator who works 8 hours per week.

Payroll processing is done by a specialised payroll company. Each week the director uploads all employees timesheets via the payroll company s website. They calculate pay, taxes, superannuation, etc. and email the details back to the director, who then makes the payments via direct deposit (using internet banking).

The payroll company provides weekly summaries to the director, who uses them to generate a monthly report on wages. This report details who is paid how much and from which account (since the organisation has multiple funders) and includes breakdowns of tax and salary sacrifice amounts.

At the end of each month the director drops off a box to an offsite bookkeeper. The box contains all the cheque requisitions with attached tax invoices, bank statements, the summary report of wages paid and the Business Activity Statement (BAS) form. The bookkeeper reconciles the accounts and produces the monthly financial report. At the end of the year the bookkeeper transfers all the required information to the auditor, who spends 3 days completing the audit.

The director finds that this system is extremely easy to manage, works very smoothly and is surprisingly cheap. It is beneficial to outsource functions like payroll which are cumbersome and costly to do in house, but very easy with the current arrangement. What makes it work well is the diligence of the bookkeeper and the good relationships between the bookkeeper and the director, and the director and the auditor.

11.2 Family Development Services: Large / Small Partnership

Family Development Services (FDS) is a small family services organisation in western Sydney. Previously they had a coordinator position for 35 hours per week, which did administration and bookkeeping using MYOB software as well as coordinating services. They decided to take the financial administration out of this position, so reduced the coordinator to 30 hours per week. They have outsourced their financial administration to a larger NGO s bookkeeper. FDS pays for 5 hours per week of the bookkeeper s time.

The bookkeeper is located at the larger NGO s office and does FDS s books there. This is beneficial for both organisations: the coordinator at FDS is relieved of the burden to supervise an additional staff member, and the larger organisation also benefits because it allows them to have their bookkeeper onsite for more hours per week. FDS is not the only small organisation that uses their bookkeeper. The bookkeeper is there 4 days per week, but 2 of those days are funded by other organisations.

Good communication and accountability is very important for the ongoing success of the partnership. For example, FDS was clear from the outset about their limited resources. Therefore they reached an agreement in which they pay for 5 hours per week of the bookkeeper s time. Their work may sometimes be completed more quickly, but sometimes it takes longer. The larger organisation has agreed to invoice FDS for 5 hours regardless of actual time spent, and both organisations feel that the arrangement is fair and the hours average out over time.

The situation works very well, although the initial setup was quite challenging. The arrangement evolved out of a pre-existing relationship between the two organisations, which had collaborated in service delivery in the past. They share similar philosophies and have the same practice approach.

11.3 Parkside: Co-location

Parkside is a facility in central Gosford where 7 youth services are co-located in a former supermarket that Gosford City Council purchased in 2000. A steering group with over 10 NGO and Council representatives set up the concept of Parkside. In October 2001 Regional Youth Support Services Inc. (RYSS), together with Employment and Training Australia (ET Australia), established the company Parkside Gosford Ltd. (Parkside) to administer the facility. The organisations all moved into the building in December 2001.

Parkside has a board which includes the managers of RYSS and ET Australia plus the Parkside facility manager and two other community and NFP sector representatives. The board manages legal issues, security and deals with the Council. There are also bimonthly tenant meeting to address common issues and exchange information.

Parkside employs a facility manager who is onsite for approximately 25 hours per week. The manager is responsible for looking after the whole building: paying and collecting rent, maintaining the common kitchen, maintaining the shared clinic, maintaining the direct relief facilities (such as showers), providing daily support for the Parkside tenants and undertaking the paperwork and administration for Parkside.

Tenants pay rent and outgoings to Parkside. The outgoings portion includes a management fee that contributes to the facility manager s wage.

The organisations that are located in Parkside are quite diverse, but they all provide services for children or young people. Efforts have been made to ensure that there are no organisations that are in direct competition with each other. Different tenants make different contributions to the building for the benefit of all tenants: for instance one organisation provides staff for the front desk, another handles drop-ins and information and referrals.

Co-location facilitates a lot of informal sharing that is mutually beneficial for the tenants, for instance one organisation may borrow another s boardroom or photocopier. Additionally RYSS employs a financial manager who also provides financial administration and financial management services to some other Parkside tenants on a fee for service basis.

Parkside is also currently investigating other support services they may be able to offer tenants. They are hoping to develop a website for Parkside with support for individual organisations to develop their own sub-sites, and ongoing web support. They are also looking into the possibility of offering administrative support and maybe other financial services to tenants on a fee for service basis.

Parkside tenants consider it to be a very beneficial model. Co-location with complementary service providing organisations fosters collaboration and communication between the agencies. It also makes inter-agency referrals easier and is a one stop shop for clients. The model offers tenants the benefit of a stable long-term location, while the company bears the risk for committing to occupy the premises.

àTelopea Family Resources: Umbrella Organisation and Co-location

Telopea Family Resources (TFR) is an incorporation that administers 2 service providing organisations: Telopea Family Support (TFS) and Telopea Family Day Care (TFDC). TFR has one shared management committee for both organisations. They are located at the same premises and a church also shares their location.

TFR employs close to one full time equivalent administrative and reception position, which is filled by 3 people on a job share basis. TFS, TFDC and the co-located church all use this staff and are invoiced for their time. TFR also employs a bookkeeper for 12 hours per day who does all the bookkeeping, accounts, insurance, tax and payroll for TFS and TFDC, which are invoiced for the time. TFR previously employed a centre manager for 6 hours per week to handle staffing issues for the shared staff and other issues arising from co-location. For the past 1.5 years they have been unable to fill this position.

The main challenge in this situation is the reporting relationships of staff. Administrative staff report to the coordinators of the 2 different organisations, who report to the TFR management committee. The bookkeeper is responsible to the management committee but usually reports via the 2 coordinators. The bookkeeper may also report to or be contacted by the management committee treasurer. When the management committee makes a decision it sometimes may not be communicated to the bookkeeper (on the assumption that someone else will do it), or else both coordinators may inform the bookkeeper. There are some communication issues that still need to be resolved.

However there are many benefits to this situation. The bookkeeper does all the organisations payroll together, which is more efficient. Insurance savings have been achieved by co-locating and taking out insurance for the centre rather than separate policies for each organisation. The services work well together, and although they provide different types of service they all have a similar philosophy. Co-location is beneficial both for the administrative functions and for clients who are accessing more than one service.