Shared Services Benchmarking Study

Executive Summary: Best Practices for Network Shared Service Models

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I. Introduction

In a time of dramatic economic change in the philanthropic and nonprofit sectors, it is imperative to approach operations and infrastructure with an innovative spirit. By sharing staff, resources, and space across organizations, shared services offer potential operational synergies and efficiencies. This study looks into networked shared service models, in particular; these are shared service models run by a business or organization to serve internal business units in order to run the whole organization more effectively.

Tides is evolving from operating independent businesses with coordinated shared services into a more functionally integrated enterprise of multiple service offerings managed by centralized leadership. In the fall of 2008, Tides partnered with Stage4Solutions, a product marketing consultancy based in Silicon Valley, California to conduct a scan of the field of networked shared service models. Who is doing this work well and what are the best practices? When there are not clear benchmarks, what variables affect decision making? Tides' goal was to gain cross-industry insights that would inform internal decision-making processes, while capturing learning that may be helpful to the field.

About Tides

The Tides mission is to partner with philanthropists, foundations, activists, and organizations across the country and around the globe to promote economic justice, robust democratic processes, and the opportunity to live in a healthy and sustainable environment where human rights are preserved and protected. Tides, a nonprofit organization founded in 1976, provides an array of services to simplify and amplify the efforts of forward-thinking individuals and organizations to make the world a better place. With offices in San Francisco and New York City, Tides provides fiscal sponsorship for over 200 groups across the country, operates and supports green nonprofit centers, and has granted more than $650 million since 2000 alone. For more information, visit www.tides.org.

II. Methodology of the Study

Tides and Stage4Solutions chose 10 organizations as study participants which represent a cross section of the field of networked shared service models. The study was not intended to produce statistically significant findings, rather to learn from a variety of organizations which do this work well.

1. ***Developed questionnaire***—along with stakeholders across Tides, create a survey on the most salient issues for operating successful shared service models including: financial, governance, program, leadership, and knowledge management issues.
2. ***Identified 10 organizations to survey***—robust, successful networked shared service models as large as Tides in revenues and/or employees, as well as cross-sector and cross-industry participation (e.g. innovative nonprofits, hospitals, universities, and for profits).
3. ***Conducted interviews***—with target organizations' CEO or CFO. All interviews were led by Stage4Solutions with active participation from Tides.
4. ***Analyzed data and summarized key findings***—Tides and Stage4Solutions then engaged in several discussions with stakeholders across the organization to interpret the findings and to help steer internal decision-making processes.

Study Participants

Organization Name	Type	Revenues	# of Employees	Corporate Structure	Year Founded	Services Delivered
Catholic Charities	Large nonprofit	$38 M (2007)	1,000	3 nonprofits 1 ltd. partnership	1907	Operate over 30 programs in the Bay Area
National Geographic Society	Large nonprofit	$562 M (2006)	1,800	1 main nonprofit 2 for profits 39 total entities	1888	Exploration, Education, Conservation of the world
World Vision International	Large nonprofit	$ 2.2 B (2007)	37,000	150 entities globally	1950	Serve the poor around the world
Aspire Schools	Innovative nonprofit	$41 M (2007)	500 FT Many PT	1 nonprofit	1998	Open and operate Charter Schools in California
Children's Home	Innovative nonprofit	$3.7 M (2008)	129 FT 85 PT	1 nonprofit 5 independent child care centers	1872	Run group homes and day care centers, provide management services
Legal Services NYC	Innovative nonprofit	$41 M (2007)	375	7 nonprofits	1967	Provide legal services to low-income New Yorkers
Self Help	Innovative nonprofit	$32 M (2007)	250	5 nonprofits	1980	Community development lending and real estate development services for the underserved.
Kaiser Foundation	Health care	$40 B (2007)	13,000 doctors	1 nonprofit 8 medical groups	1945	Operate hospitals and health centers nation wide
Santa Clara University	University	$ 293 M (2007)	524 FT / 268 PT faculty	1 nonprofit	1851	University with a variety of schools/centers
Polycom	For profit	$930 M (2007)	2,600	60 legal entities 1 main entity	1990	Video & voice solutions

III. Results

Organizational Structure

Organizations with networked shared service groups structure themselves in a variety of ways. One key factor to consider is the “balance of power” between the central group and the business units or programs.

Stronger Central Group	“Strong” central group; decentralized program services	4 of the 10 organizations
Balance of Power	“Medium-strong” central group; decentralized program services with decision-making authority	4 of the 10 organizations
Stronger Operating Entities	“Weaker” central group; virtually autonomous program services entities	2 of the 10 organizations

Organizations were also asked to identify whether certain key functions are centralized versus decentralized. The top reasons organizations centralize are cost savings/efficiencies and consistent branding. The top reasons organizations decentralize are localized control and legal reasons (legal separation of assets).

Organization	HR	Marketing	Admin	Finance/ Acct	IT	Gover-nance	Facilities	Lead-ership	Programs/ Services	Fund-raising
Aspire	●	■	■	●	●	●	■	■	■	●
Catholic Charities	●	●	●	●	●	●	●	●	■	●
Children’s Home	●	●	●	●	●	■	■	●	■	●
Kaiser	■	■	■	■	●	●	■	■	▲	●
Legal Services	■	●	■	●	●	■	■	■	■	■
National Geographic	●	●	●	●	●	●	●	■	▲	●
Polycom	■	■	■	■	●	■	■	■	▲	●
Santa Clara University	■	●	●	●	●	■	●	■	▲	●
Self Help	●	●	●	●	●	●	●	●	■	●
WVI	■	■	■	■	■	■	■	■	■	■

● Centralized ■ Both centralized and decentralized ▲ Decentralized

Funding Methodologies

The study explored how networked shared service models are funded and financially managed; below are some key findings.

1. Wide array of ***cost allocation methodologies*** for shared services—depending on the unique nature of each business, organizations use a mix of methodologies for breaking up central costs:
    - % of revenue earned by business entities
    - Cost allocation of actual costs, based upon:
        - Headcount
        - Sq. ft. usage
        - Actual service usage
        - Number of "customers"

2. ***Visibility***—some provide a great deal of visibility into cost allocations, others do not. One respondent provides full General Ledger transparency to anyone in the organization who wants to understand centralized costs. One respondent books a single GL entry for shared allocations to each business unit by the central CFO's office, with no further explanation or reporting necessary.

3. ***Precision***—there can be significant costs associated with achieving pure precision in associating activities and costs of the central functions to business units. Some organizations strive for 100% precision; others make calculated tradeoffs to use estimates in favor of focusing resources on other activities.

4. ***Mandate***—some methodologies are mandated by the CEO or CFO; some are based upon discussion with business unit leaders.

5. ***Flexibility***—some organizations set their funding methodology annually, with no changes within the year; some allow for mid-year adjustments.

6. ***External Funding***—6 out of 10 organizations raise funds beyond cost allocations to business units in order to cover ongoing shared services operations. Eight out of 10 organizations use external sources of funds—whether fundraising, operating reserves, or an endowment—to drive long-term investments.

Shared Services Management and Planning

The study also sought to understand how organizations with robust shared service models plan and manage the whole. What does efficient strategic planning look like? How do they balance the needs and feedback of individual business entities or programmatic areas with the needs of the whole?

1. ***Feedback on shared services***—half of the organizations have formal processes to gather feedback on their shared service models, from business entity annual surveys to established committees.

2. ***Complaints***—7 out of 10 organizations hear complaints about shared services' costs or services provided. Two organizations said they didn't hear complaints at all: one of them provide such great service at such low prices that their customers couldn't replicate the services on their own, and one of the organizations is so integrated that there really isn't a line between business units and the central group. One interviewee was relatively new to the organization, so wasn't sure about the level of complaints.

3. ***Strategic Planning Process***—there are two main approaches to strategic planning for networked shared services:
    - Strategic planning **strongly led by the shared service group** (half of the organizations)—shared services defines vision, long-term plan, long-term funding needs.

Business entities focus only on program-specific plan and budget creation. Power, direction, and final calls held by shared services group.
- Strategic planning a **collaborative process** between the business entities and the shared services group (half of the organizations)—business entities create their own plans and budgets, and define needs from the shared services group. Shared services creates budget based upon business entity needs and their plans. Collaboratively a final budget is created.

4. **Sourcing of Outside Services**—the ability of business entities to source services independently.
   - 4 organizations do NOT allow external sourcing of services.
   - 5 organizations allow this on an exception basis. These organizations ask that business entities coordinate with and/or provide knowledge of such activities to the shared services office.
   - 1 does allow external sourcing of some services.

Key Learnings

1. ***Important tradeoffs exist between centralization and decentralization***—there's no single "right" approach to networked shared services. Organizations should explore centralization vs. decentralization function by function, and determine what fits best for their overall goals.

2. ***Defining shared services role and "power" is critical***—decision-making processes between the central group and business entities should be defined up front.
   - Clarity and consistency—make the decision and then enforce it.
   - Continuous "voting" among business entities will slow decision making.

3. ***Empowered central leadership*** is critical to establishing strong shared services and to driving organizational change—shared services must be a strong function if the organization as a whole is to unify and be greater than the sum of its parts.
   - CEO and CFO relationship and leadership style affect the structure and influence of shared services function—they balance and enforce each other, while keeping the organization focused on its goals.

4. ***Wide array of shared services cost allocation methodologies***—there's no one right approach, but the organization as a whole must determine the right mix of visibility, precision, and flexibility. Organizations must balance these requisites with the reality that spending resources on internal overhead activities takes away from resources being spent on programs or direct client service.

5. ***Complaints regarding cost allocation/funding methodologies exist across the majority of organizations***—no one will ever be 100% happy with any shared services model. Organizations should strive to make clear and consistent decisions, then move on. But, organizations should determine the appropriate feedback loop for evaluating their model's success.

6. ***Shared services must have its own source of revenue*** to drive long-term investments for the whole—in order for networked services and central leadership to find synergies and innovate, funding sources beyond cost allocations to business units are critical.

IV. Conclusion

Given the current economic factors and a rapidly changing philanthropic sector, shared services are a valuable tool for organizations to become more flexible and cost effective. To find out more on setting up new shared service models, see www.nonprofitcenters.org where Tides is soon to release an A-to-Z guide on building shared service models for nonprofits. Tides thanks all organizations in the study for their valuable participation and their willingness to share data with the field, as well Stage4Solutions for their thought partnership and guidance throughout the study.