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Secret Sauce Of Backroom Collaborations

By Thomas A. McLaughlin

Near the top of the category of "Things That Ought To Work A Lot Better Than They Actually Do" are back room collaborations. There has always been a consistent level of interest in back room collaborations among funders and many nonprofit managers, and the recent economic troubles have only accelerated it.

With its implicit promise of painless savings (except for the jobless employees of the back rooms), the concept is simple and appealing. It is also a lot harder to accomplish than most people expect.

Success in nonprofit collaboration around administrative functions lies in making the proper matches in the first place, and then managing everyone's expectations. The most fundamental expectation to manage is the dreams of massive savings to be squeezed from a back room collaboration. First, consider the mathematics of administrative collaboration. Assuming that the collaborating organizations are already spending in the range of 15 percent of total revenue, even a near-heroic 10 percent savings in administrative costs will amount to less than 2 percent more to be spent on programming.

Most organizations would be happy to have an additional 2 percent flexibility in their costs, but an administrative collaboration can be an awful lot of work to go through to get it.

This raises one of the hidden costs of back room collaborations, which we call "alliances." The staff time required to make them happen is almost always "extra" time, over and above the normal demands of day-to-day operations. That means collaboration time is often of a lower priority, squeezed out in favor of more pressing business.

Moreover, even in well-staffed partner organizations it's often not clear how important the alliance is in the eyes of the senior leadership. This can be a recipe for frustration, which is why setting expectations properly is so important.

The three ingredients

All these concerns can usually be managed by having clear-eyed expectations for what the alliance can reasonably be expected to produce, what it will take to produce those results, and how important the results are to the participants.

But there are three essential ingredients in the secret sauce of backroom collaboration that are inherent in the characteristics of the participants and that go beyond process considerations: standardization, replicability, and scale.

These are must-haves. Without them, a back room alliance is highly unlikely to succeed. Let's take each in turn.

Standardization. During the era of Henry Ford, it was said that customers could have a Model T in any color they desired, as long as it was black. This quip gets at the heart of the economic proposition behind money-saving administrative alliances. Significant cost savings are rooted in standardized procedures.

On the face of it, administrative alliances would seem to be natural candidates for standardized processes. After all, money is money, right?

Well, not exactly. For one thing, money-handling procedures are not nearly as uniform as it appears. Just the fact that collaborating organizations use different software packages for the same purposes greatly increases the degree of difficulty in collaborations. And, there are judgment calls about things such as officially recognizing revenue that can vary considerably.

Beyond the question of basic standardization is the effect of consumer preferences on administrative details. United Ways around the country discovered this many years ago when they worked on building a collaborative pledge-processing infrastructure. The simple act of accepting a pledge from a participating employer's workers took on significant administrative complexity. Lockboxes (post office boxes where contributions were sent) sometimes had to have a regional flavor and even recognizable local ZIP codes. The fear was that employees give to workplace campaigns would be turned off by the Anywhere, USA message that local donors don't matter.

Pledge forms needed to be customized for each local United Way. Sometimes different forms needed to be used for varied audiences. It would have been easier if everyone was satisfied with black, but that is not the way of the twenty-first century.

The reason why many nonprofit back room operations are not standardized is because they tend to be put together in support of programs and services that are not standardized. Each has different terms referring to essentially the same thing. But even if a crosswalk between terms and services exists, no one can say for sure that the organizations are dealing with the same thing in the same way.

Replicability. For administrative alliances to be successful, they must include replicable

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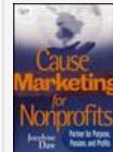
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components. Closely related to standardization, replicability means that an administrative process not only is based on standardized components, but that those components regularly get put together in the same way.

Human resource management is a good example of non-replicable procedures. Since most nonprofits with fewer than 75 to 100 employees find it difficult to hire and retain a true HR professional, the smaller systems tend to have been cobbled together in a hodgepodge fashion. Combining the two systems into a single operation would yield few replicable procedures without a major overhaul of one or probably both.

The appropriately person-centered nature of so many nonprofits' services, while often a source of satisfaction to consumers and staff alike, work against replicability in a fundamental way. Without an overarching agreement about the service models using the administrative services, it is unlikely that two or more back rooms will have enough in common to maintain replicable processes.

Scale. Finally, for administrative alliances to be successful, the services being integrated have to have a certain level of scale, or size of operations. This requirement is grounded in basic economics. Low volumes of transactions will not support the added administrative effort needed to make an alliance work, and they might not even be sufficient to improve the quality of the work being done. In turn, this suggests that each participating organization has to be of sufficient size to support a minimum volume of activity and enough professional staff to match.

The corollary to this idea of a minimum size of participants is that it is very unlikely that small nonprofits (say, less than \$3 million in revenues) will have the capacity to plan and execute their role in an administrative alliance. They probably do not have enough staff time, and there may not be a sufficient level of management capacity, either. This "administrative alliance tax" is the reason why small organizations might be better off co-locating rather than trying to build administrative alliances.

A strategic side note is worth mentioning here. There is a tendency today to think of administrative collaboration as a novel, nonprofit-centric idea. Yet there is a long history of for-profit entities picking off a single function around which to build a kind of alliance.

For example, in the health care field, for-profit professional billing services have effectively created a narrowly-focused "alliance" around a single package of billing software. The only reason that these companies exist is because they captured the market before nonprofits thought of doing the same thing among themselves. Organizations in the newer and fast-growing parts of the nonprofit sector may have the chance to build their own version of such a company as an alliance -- if they move quickly.

Administrative collaboration among nonprofits is worth trying. But the proper ingredients have to be in place. Any special sauce worth the money has to be standardized, replicable, and produced in large enough quantities to satisfy all consumers.

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