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Transformation
Happens Here

Transformed support functions reap big rewards for NGOs

Support functions are ancillary or noncore activities - like HR, learning and development, finance and accounting, and IT - that an organization carries out in order to facilitate its main programs and functions. The output of support functions are not themselves intended directly for the beneficiaries, but they're essential for successful and effective completion of a process, program, or project.

Organizations with excellent support functions have proved to outperform their peers, ensuring the maximization of donor/beneficiary returns and organization continuity and providing a great and challenging workplace for employees in the long run. Support functions enable the core activities or value-adding processes, and as the organizational backbone, play a vital role in the organization's performance. However, most organizations neglect support functions while focusing on their core programs and processes. And this can have a significantly negative impact on the funding NGOs obtain from donors.

The Bridgespan Group examined the financial records of 20 well-known, high-performing international nonprofits of varied sizes (from annual budgets of $2 million-$650 million) to determine their actual indirect cost - meaning those not attributed to a specific program or service. It found that indirect costs fell into four general categories: administrative expenses, network and field, physical assets, and knowledge management. Bridgespan discovered that NGOs' indirect costs made up between 21% and 89% of direct costs. The median indirect cost rate was 40%, nearly three times the standard 15% overhead rate. However, funding practices widely used by governments, foundations, and corporations, including Center for Scientific Review (CSR) grant makers, undermine the development of successful nonprofits. Funders typically support programs, but they scrimp on 'overhead'[1].

The terms "overhead" or "support function cost" or "indirect costs" lack a standard definition. To showcase lower overhead expenses in fund utilization, most support function expenses are classified as program expenses.

In India, the CSR Rules of the Companies Act, 2013, Section 135, caps permitted capacity building/administrative expenses at 5% of annual CSR spend - an impossibly low threshold when you consider the financial, human resources, and information technology systems required to run an effective nonprofit. Many governments and multilateral grant-making organizations also have similar caps. The Foreign Contribution (Regulation) Act, 2010, stipulates that administrative expenses in excess of 50% of contributions received must be spent only with prior permission of the Ministry of Home Affairs.

This persistent underfunding of overhead fuels a vicious cycle in which funders have unrealistic expectations about how much it costs to run a nonprofit, and NGOs feel pressure to conform to these unrealistic expectations and respond to this pressure in two ways: they spend too little on overhead, and they under-report their expenditures on tax forms and in fundraising. This underspending and underreporting in turn perpetuate funders' unrealistic expectations[2].

Over time, funders expect grantees to do more and more with less and less - a cycle that slowly starves nonprofits. They are plagued by multiple weaknesses/limitations that are disguised as a lack of or poorly structured support systems, undermining their ability to accomplish large-scale projects. These challenges are often magnified as the size and reach of NGOs grow. Directly or indirectly, poorly managed support functions lead to a crisis of accountability and transparency, which in turn blemishes the non-profit's credibility.

Efficiently managed support systems can significantly contribute not only by helping deal with the challenges that limit their effectiveness through refined organizational skills, but also in making the NGOs transparent, accountable, and credible to public opinion.

1. https://www.bridgespan.org/insights/library/pay-what-it-takes/pay-what-it-takes-philanthropy
2. https://www.researchgate.net/publication/247778048_Anatomy_of_the_Nonprofit_Starvation_Cycle_An_Analysis_of_Falling_Overhead_Ratios_in_the_Nonprofit_Sector

Prevalent practices

Non-profits around the world are trying to adopt numerous practices to efficiently manage their support functions. However, each method has its own challenges, and without funders' support, they remain highly unrealistic to implement.

Back-office outsourcing

Back-office outsourcing involves the delegation of an organization's support functions to a third-party provider to ensure an efficient and sustainable operation. With this service, organizations can maximize the full potential of their resources. This solves the challenges of rising operating costs, a lack of expert knowledge and skills, and low scalability, to name just a few[3].

Back-office integration

Shared services is another well-developed practice for streamlining functions, which are usually spread across an organization or several organizations, into one business unit. Its aims are to achieve cost savings, improve access to services, and concentrate specialist skills to improve efficiency, effectiveness, and sustainability. NGOs at every level are partnering with one another to share information, best practices, and funding mechanisms in order to develop the best programs possible. NGOs can also come together to have a common back office to reduce overhead. However, this rarely happens, because NGOs with better funding tend to exert more influence. For such a partnership to work, mutual and shared decision-making is critical.

Automation/use of technology

For NGOs, use of technology allows promotion of better service in the long term and helps them accelerate their efforts, increase their efficiency, improve their assistance delivery, and better manage their resources.

NGO benchmarking

This is a capability development tool that nonprofits can use to self-assess the process maturity of their functions. NGO benchmarking provides a pathway to continuous improvement by:

- Comparing organizational capability against the broader not-for-profit sector and providing a roadmap to improve outcomes
- Increasing the transparency of the NGO's capabilities to customers, funding bodies, key stakeholders, and the community
- Attracting more diverse funding sources by demonstrating organizational capability for funding opportunities

Self-scan for process maturity

An NGO should self-assess its performance according to various standards. For example, in Australia, the Social Innovation Council developed an online self-assessment tool for its NGOs. Based on the responses, the NGO and/or its various functions can be categorized into "emerging," "mature," and "excelling" levels[4].

This tiered approach provides a clear pathway to continuous improvement by allowing the NGO to track its performance and easily identify opportunities to improve service delivery. The model also includes accountability and assessment measures designed to give beneficiaries and funding bodies greater assurance that the services provided are high quality, a good value for the money, and outcomes-focused. There is a wide variety of tools available to nonprofits for self-assessing their performance and practices. The benchmarking results can guide strategic planning and business operations, and staff capability development programs.

Process optimization

NGOs need to constantly look for opportunities to improve how they function by reducing costs and making effective use of resources by decreasing or eliminating time and resource waste, bottlenecks, and mistakes. Donors are expecting NGOs to embrace corporate-style practices in managing their people and functions by optimal utilization of funds, efficient resource utilization, automation of repetitive tasks, the setting up of policies, and standardization of procedures and processes to make the programs more effective. And these are all precisely the goals of process optimization.

3. https://www.magellan-solutions.com/blog/back-office-outsourcing-in-the-highly-competitive-marketplace/
4. http://mel0201clsprod.blob.core.windows.net/uploads/ngobenchmarking/ngo%20benchmarking%20model%20evidence%20guidelines.pdf

Transformation through process optimization

Here's a quick look at how support function process optimization can positively impact NGOs:

Support function	Activities	Challenges	Solutions	Link to impact
Human Resources	• Acquisition and onboarding of talent • Redefining goals and influencing teams • Addressing human needs of employees	• Affording highly skilled, qualified talent • Employee retention • Resistance to linking HRM to performance	• Scientific/data-driven HR • Automated HR procedures • People-friendly HR policies • Innovative funding	• A results-driven performance culture due to hiring of skilled employees • Employee satisfaction, increased productivity and employee retention due to positive organizational culture
Finance and Accounting	• Budget preparation • Authorizing payroll, other payments • Accountability to donors, regulatory bodies	• Lack of financial management knowledge • Financial Management not a priority	• Framing well defined financial policy • Use of financial management tools	• Better execution of project due to efficient utilization of funds • Increased stakeholder confidence thanks to financial transparency
Monitoring and Evaluation	• Tracking, updating of program data • Data analysis and reporting • Maintenance of central repository of information	• Resistance to M&E • Inability to harmonize IT and NGO terminologies • Data entry difficulties for field staff	• Effective use of digital tools • Flexible, user-friendly MIS • Staff training on MIS	• Informed decision-making about program improvement • Improved funding due to transparency created by higher-quality reports to donors
Information Technology	• Collaboration and networking • Automation of administrative work • Information security	• Culture - NGOs slow to adopt IT • Inadequate budget to adopt latest technologies • Lack of technically qualified personnel	• Partnership with IT companies to enhance IT capacity	• Faster execution of project due to speeding up of admin services • Improved stakeholder communication • Systematic monitoring of employee productivity
Learning and Development	• Develop employee capabilities • Employee engagement and motivation	• Funder misalignment on NGO needs • Lack of platforms/ resources for innovations • No incentives for learning	• Creation of values-based culture • Funder - NGO partnership for growth	• Talent retention • Adds long-term systemic value to NGO ensuring sustainable impact to communities
Communication and Fundraising	• Raise awareness about cause • Brand building and PR • Maintenance of and reach out to potential donors' database • Fundraising activities • Donor relations management	• Donors ignore non-program costs • NGOs forced to follow donor agenda • Donor prejudice against new NGOs • Competition amongst NGOs for funds • External factors - socio-political, economic	• Identifying effective communication channels • Well researched, customized reach out to donors • Effective use of online funding options	• Higher-end beneficiary impact and outreach from increase in funds

And the following are case studies about how teams of Genpact Social Impact Fellows optimized the support function processes in numerous NGOs.

The Genpact Social Impact Fellowship (GSIF) program is professional service firm Genpact's flagship social transformation program in India. It's a one-year engagement program in which a consultant works with a select nonprofit organization on its high-priority projects to drive social impact. It combines the strengths of the development sector with the best practices of the corporate sector to generate real, sustainable change.

GSIF started in 2016. Over the past four years, the fellows have undertaken 59 projects with various NGO partners, impacting 10 million beneficiaries.

The transformational projects:

- Help NGOs solve their strategic objectives through transformational thinking
- Leverage Lean Six Sigma (LSS), design thinking tools, analytics, and cutting-edge technology
- Develop commitment across all involved teams, and facilitate collaboration among important stakeholders
- Bring fresh ideas and perspectives to creatively solve the identified opportunity

In each of these case studies, the GSIF team members utilized Lean Six Sigma, a fact-based, data-driven philosophy of improvement that values defect prevention over defect detection. It drives customer satisfaction and bottom-line results by reducing variation, waste, and cycle time, while promoting the use of work standardization and flow.

Human Resources - hire to retire

An NGO that develops microenterprises led by women entrepreneurs had high employee attrition rates, which led to knowledge loss and program management inefficiencies. Moreover, the recruitment process was lengthy and there was a void in the system without proper handover/takeover systems.

The GSIF team members set out to set up systems and processes through the following approach:

1. Mapped the as-is processes. Process mapping is the graphic display of steps, events, and operations that constitute a process
2. Conducted a failure mode and effects analysis (FMEA)- which is a structured approach to discovering potential failures that may exist within the design of a product or process
3. Developed a fishbone or cause-and-effect diagram to identify the many possible causes of the problem
4. Prioritized the problems and reengineered the to-be processes

The impact generated:

- Reduced attrition from 30% to 20%
- Reduced hiring cycle time from 60 days to 40 days
- Increased outreach from 80,000 to 100,000 women
- Improved income generation activities for women from 50% to 80%

Key takeaways for all NGOs

The importance of HR in an NGO as a means of ensuring sustainable growth can't be overemphasized, because it's the fundamental strength upon which people, strategies, processes, and operations are based.

Extensive research conducted by Society for Participatory Research in Asia (PRIA), a leading nonprofit in India, found that most NGOs have one or two paid staff members and the rest are voluntary workers. The number of well-qualified people who are prepared to make the necessary sacrifices for little to no pay has diminished rapidly. They prefer working for foundations - the philanthropic arms of corporations - that can afford their talent[5].

5. V. Sharma, "Importance and Responsibility of Human Resource in Non Governmental Organisation," *International Journal of Engineering Research & Management Technology*, 2014

Because the workers may be volunteers or part-time employees, introducing and implementing strategic human resources management (HRM) may create tensions between balancing formal aspects of managing people, particularly paid workers, and the informal management practices, traditional values, and approaches often used for volunteers[6].

Many NGOs don't offer training and development opportunities to their employees. Work hours can be long, causing staff fatigue without commensurate pay. Reduction and shortening of tenure of the funds' flow have increased uncertainty of project extension.

What's needed is a strategic human resource management system (HRMS) for talent management with the use of competency mapping and competency-based interviews as part of the recruitment process, and people-friendly HR policies like flexi-work options, recognition drives, and internal growth opportunities that ensure a high level of staff satisfaction. Wellness initiatives that focus on the well-being of staff, including health, trauma, and employee stress, help retain qualified, enthusiastic employees and create a positive organizational culture.

Use of automated HR procedures will allow for more time spent hunting talent rather than handling mundane paperwork and administration. And it will not only ensure the hiring of talent who are skilled enough to accomplish the NGO's mission, but also minimize employee turnover and boost the culture, morale, and value of the organization

Finance and accounting – reengineered fund utilization reporting process

A GSIF partner that helps disadvantaged children and youth complete their secondary education and equips them with life and employability skills and knowledge wanted to extend its corporate donor funding cycle from three to seven years to help it double its growth in the next three years.

The GSIF team members used Genpact's approach to Lean Six Sigma to reengineer the NGO's donor reporting cycle processes. The team members:

5. Mapped the processes along with their current baseline
6. Selected and prioritized key focus areas like expenses booking for salary, the IOU process, and underspent analysis
7. Eliminated non-value-added steps
8. Standardized the templates for regular tracking of aging open items and project implementation
9. Changed finance policies by introducing a penalty clause for non-closure within the stipulated time
10. Introduced a strong governance structure for taking corrective action

The impact generated:

- Prevented fund leakage to the tune of INR 2.4 million
- Reduced the underspend amount by 3%

Key takeaways for all NGOs

Even though NGOs are not-for-profit or nonprofit, they're still businesses that are susceptible to the same threats and pressures that face for-profit companies. Financial management entails planning, organizing, controlling, and monitoring the financial resources of an organization to achieve its objectives.

Financial management is often not a priority for nonprofits. Over time, a lack of financial knowledge, planning, management, and monitoring systems makes NGOs vulnerable to financial losses and problems, making them more likely to succumb to financial crises when they strike.

Use of financial management tools will help managers use resources efficiently to achieve objectives and fulfill commitments to stakeholders. For example, using an invoicing software tool is more efficient than traditional billing methods. By framing well-defined financial plans and policies, NGOs can make more productive decisions about resource allocation, fundraising, fund mobilizing, and other undertakings.

6. B. Timothy, J. Cavanagh and R. Hoye, "The growing importance of human resource management in the NGO, volunteer and not-for-profit sectors," *The International Journal of Human Resource Management*, 2017

Monitoring and evaluation (also known as program performance) - setting up a framework

In collaboration with the Indian government, a GSIF partner engages youth in skilling programs to dissuade them from anti-national activities. It lacked a measurement system to capture and identify critical metrics, which meant it was unable to clearly demonstrate its impact to stakeholders. As a result, scaling up the project was hampered.

The GSIF team members implemented a business process management system (BPMS) methodology to help map processes, measure critical-to-quality metrics (CTQs), and create standardized reports in order to help identify improvement opportunities.

The impact generated:

- A scaling up in all conflict affected areas, once validated by the government
- Increased project credibility, leading to better access to CSR funds

Key takeaways for all NGOs

Funding agencies extend their financial support to NGOs only after satisfactory evaluation of their performance and services cost.

Monitoring is a systematic and long-term process that gathers information about the progress made by an implemented project. Evaluation is performed to judge whether a project has reached its goals and delivered what was expected according to its original plan.

NGOs are often spread over a vast geographical area and handle many diverse projects. Data requirements may be internal (generated by implementation activities) or external (by the government for comparison, advocacy purposes, planning, and policy making). The data requirements change depending on the nature of the project and the donor's requirements. When implementing IT-based management information systems (MIS), NGOs may fail to explain their operations to the MIS developer to build the right database and interface. Any mistake in the developer's requirement analysis may lead to the inclusion of unimportant data items that make the MIS clumsy and increase the burden of data entry or noninclusion of important data items, thereby making the MIS weak and potentially useless.

Moreover, monitoring and evaluation (M&E) is commonly perceived as a threat and performance measurement tool by the program staff. And they're usually so emotionally involved that they don't welcome the eventual disappointing results of an evaluation. Data entry forms are often disliked because of their complexity and lack of flexibility. They require the data to be in a specific format. And people engaged in field work are more comfortable in verbal expression or simpler spreadsheets[7].

Small NGOs simply don't have the resources, staff, and skills for M&E and MIS. Also, because they are faced with many more urgent demands, M&E and MIS are rarely a priority.

Thus, NGOs must develop a budget that will help alleviate the current shortage of M&E human resources and skills; provide capacity building and training to the project staff undertaking MIS responsibilities; and encourage the participation of all stakeholders.

Information technology - an application-based digital attendance system for proactive addressal

An NGO that empowers adolescents to build an equitable society wanted to reduce its dropout rate to increase program outreach. Specifically, it wanted to increase its outreach to 1 million adolescents by 2022 and identify at-risk adolescents to take timely action for reducing dropouts in order to sustainably grow the program.

The GSIF team members used Lean Six Sigma and design of experiments (DoE) - an approach for effectively and efficiently exploring the cause-and-effect relationship between numerous process variables. In this case, the process variables were factors affecting and leading to dropout.

7. K. C. Dash and U. Mishra, "Critical Considerations for Developing MIS for NGOs," Open Publishing

The team members identified existing gaps and areas for improvement using specialized tools including:

a. Kano - features that will delight users

b. Fishbone (cause and effect) - reasons that affect dropout

c. Statistics test - or chi-square, to test the association between variables for identifying the critical indicators for developing an early warning system

The impact generated:

- A 3% decrease in dropout rates
- 50% of the time required for the enrollment process saved
- An error risk mitigated by 70% through dynamic unique ID creation

Key takeaways for all NGOs

IT can serve NGOs in different ways. It can increase overall effectiveness through better collaboration and extend services to new communities in need. Moreover, IT can be a powerful force that opens exciting opportunities for NGOs to achieve their missions and goals in an effective way.

Historically, NGOs have been behind their corporate counterparts in adopting IT. Most NGOs adopt the traditional (manual) methods by using computers for word processing, spreadsheets, and accounting applications. There's a perceived importance of face-to-face interaction, leading to resistance to new technologies for communication.

NGO funds are mostly dedicated to achieving the organization's mission, goals, and planned activities, while a comparatively low percentage of the budget is directed to general IT support or staff's professional growth. An inability to pay competitive salaries to technical personnel or build much-needed technical skills are major inhibitors of IT adoption[8].

NGOs need to enhance their IT capacity, especially as it relates to budgeting, training, staffing, and senior management involvement in order to boost strategic utilization. They should partner with IT companies to train staff in the necessary technical skills so they can handle the IT requirements.

Learning and development - trainer capability building

An NGO that runs a counseling and skills training-focused employability program for youth wanted to increase its outreach to 30,000 more youth in the next three years by increasing training effectiveness and building their trainer's competencies.

The GSIF team members used ethnographic study tools to identify areas for improvement:

a. Rose-Bud-Thorn (RBT) to capture what's working well, what needs to be changed, and what needs to be eliminated

b. Experience diagraming to map the highs and lows of every individual's experiences

c. 'Fly on the wall' for observation and diagnostics of the current training delivery

d. Questionnaires and interviews to understand both trainers' and trainees' challenges, and create a user-centric solution

The impact generated:

- A 20% increase in outreach
- A 15% reduction in cost per student

Key takeaways for all NGOs

NGOs must facilitate the learning of all its members and continuously transform themselves. Learning and development (L&D) allows individual, team, cross-functional, operational organization, and strategic organizational learning.

8. J. Alammary , "INFORMATION TECHNOLOGY FOR ENHANCING NGOS' PERFORMANCE IN THE KINGDOM OF BAHRAIN," *International Journal of Electronic Commerce Studies*, 2012

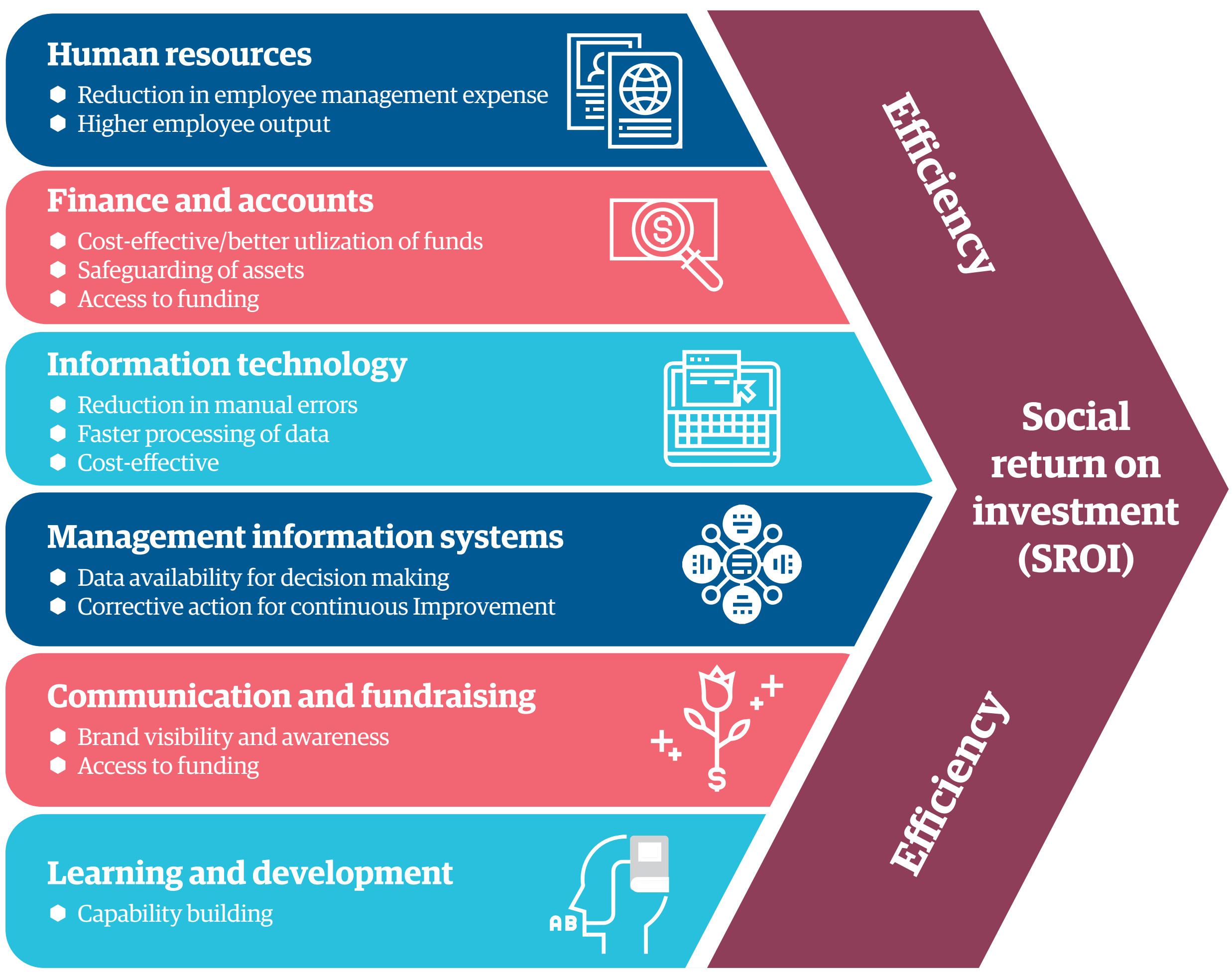
The attitudes and behaviors of the individuals and groups that make up an organization play an important role in shaping organizational culture and performance.

L&D is not a funder priority. Donors see delivery of program outputs as the main measure of success. Most NGOs have hierarchical, centralized, control-oriented structures with no system for accessing, storing, and disseminating learning. They lack the financial means, time, and resources to commit to a holistic strategy and capacity-building interventions. A culture of learning is not built as curriculum sharing is not encouraged. Incentives and rewards for learning are weak[9].

NGOs must use structured tools to assess their current capacity for organizational learning. This helps in reflecting on their processes and functions and scoring themselves against benchmarks to set priorities for actions they can take to strengthen their capacity. When a funder and NGO are jointly committed to enhancing the work of the NGO, they can define the intended outcome of the capacity-building intervention and plan it accordingly. This will ensure that L&D is not viewed as a one-off event, but as something that adds long-term systemic value. The return on this investment will far outweigh the time and resources spent.

Conclusion

The success rate of sustainable change and the impact of social programs are largely dependent on the effective and efficient utilization of people, processes, and funds, as well as program monitoring. And as you read above and can see in the chart here, transformation of support functions through process optimization is an exceptionally strong way to achieve all these goals.



9. D. Gillies, "Strategies of Public Engagement: Shaping a Canadian Agenda for International Co-operation," McGill-Queen's University Press, 1997

Disclaimer

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