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RETURN ON INVESTMENT
OPTIONS FOR AGENCY CHANGE

Prepared for:
Human Services Return on Investment Leadership Team

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June, 2000

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SUMMARY

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A. INTRODUCTION, BACKGROUND AND PURPOSE OF DOCUMENT

The goal of the Return on Investment (ROI) Project is to improve the community's return on its investment in its people and human service systems. It aims in part to enhance human services outcomes of its citizens by shifting as many of our resources as possible away from overhead structures into the most cost effective direct provision of needed core services and programs. The emphasis of the first year of the project was on "Neighborhood-Based Youth and Family Services in the City of Rochester." The first report, entitled Looking to the 21st Century: Improving the Return on Investment in Rochester's Human Services Delivery System, focused on practical recommendations for change, and timetables and responsibilities for their implementation. Among other things, the recommendations included opportunities for strengthening various administrative support services and discussed the potential for agency affiliations under certain types of circumstances.

This subsequent phase of the ROI Project, as jointly agreed to by the ROI Leadership Team and the Council of Agency Executives, involves a detailed objective analysis of actual agency experiences (pro and con) with a "menu" of agency efficiencies, administrative support and affiliation/partnership collaborative options along a continuum of least to most complex possibilities. This phase of the ROI Project builds on issues addressed in the first report, but also breaks new ground and expands the focus of the project to a larger segment of the human services delivery system, thereby increasing the impact and value of the project's efforts. This report identifies a menu of options currently in place or under consideration by various local non-profit agencies, objectively presents the actual experiences of human service agencies with the various options, and indicates various options that have been considered and rejected for various reasons.

More specifically, the report addresses, based on actual agency experiences, the frequency with which each option is currently in operation among local agencies; the types of circumstances under which each option might or might not make sense; the likely benefits and potential pitfalls to be aware of; the development of a set of benchmarks, criteria and guidelines for agencies to consider as they compare themselves with agencies of comparable types and sizes in determining the best ways of providing various services in the future; and what implications each might have not just for improving administrative efficiencies but also for improving service delivery.

In initiating this phase of the ROI Project, the funders and service providers on the ROI Leadership Team felt that the analysis and presentation in a combination of narrative and tabular/matrix form of experience-based information from a variety of human service agencies would be of great value in strengthening agency decision-making capacity without imposing solutions or rigid standards on anyone. The intent was to learn from actual experiences agencies have had with a variety of options. In contrast to most CGR reports, this report does not offer explicit recommendations for change. Rather, it is designed to provide practical guidelines, based on actual agency experiences, for non-profit service providers to consider as part of internal self-assessments of how they currently operate, compared with their peers. The intent of the document is to provide a set of benchmarks, or points of reference, against which local agencies and their boards can compare themselves and determine whether there are new options which they should consider as they plan for their respective futures, individually and collectively.

Based on the data presented in this document, agencies can compare themselves with matrices or sets of "community norms or ranges" showing the extent of implementation or non-use of various options among their peers, and showing staffing patterns, outsourcing arrangements or other ways of providing a range of administrative support services and affiliation/collaboration options. It is anticipated that agencies would not receive definitive, absolute answers from such comparisons as to what they should do, but rather that they would receive guidelines as to what options might be feasible and worth considering, with what likely consequences, under certain sets of circumstances, thereby helping each agency increase the probability of making the most cost effective, value- and service-enhancing decisions as it considers how to maximize its resources in the future.

B. Methodology

To obtain the information needed to accomplish the project's objectives, a survey of agency experiences with various administrative support and affiliation/collaboration options was mailed to a list of human service agencies in the Rochester/Monroe County area. This list was compiled by CGR based on several criteria:

- All Council of Agency Executives members.
- Those agencies that have accessed the United Way restructuring fund in recent years.
- Other human service agencies known to have explored formal affiliation/merger options, including both those that did and did not decide to go forward for whatever reasons. This included those identified in the first ROI report, as well as any others we were aware of that were not included in that report or in the United Way restructuring fund.
- Any agencies included in the Phase I study that were not included in the above lists.

The list was then shared with the ROI Leadership Team for their input regarding other agencies that needed to be included. Because they are addressed through other planning processes and have specialized issues affecting them, hospitals and other agencies affiliated with the three health care systems in the Rochester area, and all child care/preschool providers were excluded from this study.

The executives of the agencies included on the final list received a letter explaining the Project and its goals and asking for their cooperation in completing the accompanying survey. The letter and survey were drafted and pretested by CGR, working closely with a subcommittee of representatives from the ROI Leadership

Team and the Council of Agency Executives. The subcommittee ultimately approved the final documents before they were mailed. The survey asked the executives to describe what experiences they and their agencies have had—or have considered, or are contemplating—with a range of administrative support and affiliation options, ranging from specific internal administrative efficiencies at one end of the spectrum to more complicated formal affiliations or mergers at the other end. The letter and survey are presented at the end of the report as Appendix A.

A total of 84 surveys were mailed. Of those, 10 turned out to be inappropriate for various reasons (e.g., had already merged with another organization, was not a 501(C)(3) organization, was linked to a national organization and had limited ability to make affiliation decisions at the local level, etc.). Of the remaining 74, 57 completed surveys were received, a 77% response rate.

Once the surveys were completed and returned, CGR compiled the responses and sorted them in a variety of ways to objectively assess and profile what actual agency experiences have been with each option. Responses were tabulated and analyzed across all 57 responding agencies, but also against a variety of breakdowns or categories of agencies. These breakdowns sorted the agencies into various categories based on administrative information such as size of agency budget, number of administrative staff, number of agency programs and sites, number of funding sources, etc. In addition, the agencies were also sorted and categorized by the type of programming or services they provide. These categories and subcategories of agencies became the basis for the most important analyses and presentations of data in the report. Before turning to the analyses, the categories into which the agencies were sorted are described below.

Breakdowns by Administrative Categories

Administrative information provided on the surveys was used to sort agencies into various comparison categories. The categories used, the subcategories under each, and the number of agencies comprising each group provide an initial profile of the agencies included in the project's data base, as well as providing the basis for many of the analyses that follow later in the report. The groups, with the number of agencies comprising each group indicated in parentheses, are as follows[1]:

- **Total Agency Annual Expenses (1998 data)**: This category comes from IRS Form 990, line 17, and is a total of program services, management and general, fundraising, and payments to affiliates—the basic costs of running a human services agency. The agencies that responded to our survey had a range of total expenses from $26,211 to $44,352,766, with the median being $1,927,543. One agency did not provide this figure. We subdivided this category into six subcategories:
  - $600,000 and under (9)
  - $600,001 to $1,000,000 (8)
  - $1,000,001 to $2,500,000 (14)
  - $2,500,001 to $5,000,000 (9)
  - $5,000,001 to $10,000,000 (6)
  - $10,000,001 or more (9)

- **Number of Administrative Staff (FTEs)**: Administrative staff includes overall agency staff who are not routinely involved in direct provision of programs/direct services. The agencies responding had a range of staff from 0.85 to 122, with a median of seven administrative staff. The seven subcategories are:
  - 3 and under (11)
  - 3.1 to 5 (10)
  - 5.1 to 8 (8)
  - 8.1 to 10 (6)
  - 10.1 to 15 (6)
  - 15.1 to 25 (8)
  - 25.1 or more (7)

- **Number of Separate Programs Within Agency**: Agencies responding to our survey range from those with only one program to an agency providing 70 different programs to the community. The median number of programs offered is nine. The six subcategories are as follows:
  - 4 and under (9)
  - 5 to 7 (11)

[1] Subcategory totals typically do not add up to the 57 responding agencies, as a few agencies did not provide responses to specific questions.

- 8 to 9 (10)
- 10 to 12 (10)
- 13 to 20 (9)
- 21 or more (7)

- **Number of Sites Owned or Rented by Agency**: Although about one-quarter of the responding agencies had only one site, the number of sites ranged up to 135. The median number of sites owned or rented is three. This category was subdivided as follows:
  - 1 (16)
  - 2 or 3 (14)
  - 4 through 9 (12)
  - 10 or more (13)

- **Administrative-to-Program Staff Ratio**: This ratio was calculated to help agencies determine where they stand in comparison to other agencies in terms of size of administrative staff versus size of program staff. In the responding agencies the range was from 6:1 (in an agency that relies heavily on volunteers and has little paid program staff) to 1:18.6. The median is one administrative staff to 5.3 program staff. This category was divided into six subcategories:
  - Under 1:3 (10)
  - 1:3 to 1:3.9 (9)
  - 1:4 to 1:5.9 (10)
  - 1:6 to 1:7.9 (9)
  - 1:8 to 1:10.9 (7)
  - 1:11 or more (8)

- **Number of Agency Funding Sources**: This category was difficult to decipher once the responses were received. The survey did not define "funding sources" and responders noted a variety of comments such as "hundreds of donors." In that case it was counted as one funding source, contributions. The range in number of funding sources was from three to 55, with the median at nine. When reviewing analyses based on number of funding sources, please note that agencies may have used somewhat different definitions of this variable. This category was subdivided as follows:
  - 4 and under (13)
  - 5 to 7 (9)

  - 8 to 11 (9)
  - 12 to 19 (12)
  - 20 or more (10)

- **Management and General as Percent of Total Expenses**: Based on the IRS Form 990, this category is used to report the agency's expenses for overall function and management, and excludes expenses related to direct conduct of fundraising activities and provision of program services. Those expenses may include compensation of officers, directors, etc., costs related to the board of directors, general legal services, accounting, office management, auditing, personnel and other centralized services, and investment expenses. There appears to be some flexibility in reporting items under the categories of program services, management and general and fundraising, and some agencies may have charged expenses slightly differently under this variable. The percentages range from 2% to 25%, with the median at 12%. The subcategories are listed below:
  - 9% and under (11)
  - 10% or 11% (9)
  - 12% or 13% (12)
  - 14% to 19% (8)
  - 20% or more (12)

- **Occupancy Cost per Square Foot**: CGR found that there are a number of caveats that apply when using the Occupancy Cost per Square Foot figures. Only 40 of the 57 agencies responding to the survey responded to this question, even after a round of faxes asking for further clarification. The occupancy cost per square foot figures provided ranged from $0.00 to $30.10, with three agencies reporting that this question was not applicable and 13 not responding. One agency reported that it pays no rent or other costs for its site. The wide range of cost figures can be attributed to a variety of factors: location of the property, amenities included, condition of the property, etc. Some of the agencies have only one site, which may be located in a particularly high or low rent area. Others have several sites in various areas of the city and/or suburbs and are able to average out cost among sites. The rent differentials that may exist between one area of the city and another, or between city and suburban locations, make such comparisons inherently unfair. Some properties may come with a variety of amenities included in rental payments, such as maintenance, security systems, guards, or parking. The condition of the property may also have a direct bearing on rental costs. Please keep these caveats in mind when reading the pertinent sections of this report.

Of those agencies that provided per square foot costs, the range was from $0.00 to $30.10, with the median being $10.15. The agencies that reported implementing co-location appear to be clustered in the $10.00 to $13.00 per square foot cost range. Those that reported implementing joint ventures, joint purchasing and shared administrative services also appear clustered in this range. This category was divided as follows:

- $0.00 to $6.99 (10)
- $7.00 to $9.99 (8)
- $10.00 to $10.99 (9)
- $11.00 to $13.99 (7)
- $14.00 or more (6)

For this category, we also compared occupancy costs with other administrative categories to enable agencies to compare their costs with to those of other similar agencies. The per square foot costs generally rise with total agency expenses. Yet those agencies with the highest costs are in the $5,000,001 to $10,000,000 range, with costs dropping slightly for the over $10,000,001 range. The median per square foot cost appears to be lowest for agencies with only one site. Agencies with the fewest funding sources tended to have the highest occupancy costs (median $12.05). For further details, see Appendix B.

Breakdowns by Agency/Program Types

We also sorted agencies by the type of programming or services they provide to the community. To assist in this process, CGR used the taxonomy adopted by the Los Angeles' Info Line information and referral service. This taxonomy was also used by CGR in its 1996 Metro Rochester Nonprofit Resources Inventory. At that time, the taxonomy was endorsed by Life Line and HelpNet, and the coding system was accepted by the nonprofit organizations listed in that report. Coding of programs and services at that time was done by Life Line. For our purposes in this project, to the extent possible, we also used these earlier agreed-upon Life Line classifications to categorize the agencies. Since the majority of agencies in this community, and of those included in this study, provide several different types of programs, it was necessary to list several agencies under more than one program/service category to accurately reflect the types of services they provide. The categories used, and how many of the 57 agencies are included in each, are as follows[2]:

- **Basic Subsistence/Income Security (16 Agencies)**: These programs furnish survival level resources including food, housing, material goods, transportation and temporary financial assistance for low- and fixed-income, indigent, elderly or disabled people who are otherwise unable to adequately provide for themselves and their families. This category also includes programs that provide for the economic needs of the community by helping those who are able and willing to prepare for and obtain gainful employment; by securing public assistance and support for the eligible needy; and by ensuring that retirees, older adults, disabled people and other eligible individuals receive the social insurance benefits to which they are entitled. Because of the size of this broad category, for analysis purposes, the category is further broken down into three subgroups based on budget size:
  - Less than $2 million (7)
  - Between $2 million and $5 million (4)
  - $5 million or more (5)

- **Criminal Justice and Legal Services (3 Agencies)**: These programs promote and preserve the conditions that enable community residents to live in a safe and peaceful environment through the administration of justice according to the principles of law and equity. They do this through such things as the provision of affordable legal representation and/or alternatives to legal remedies.

[2] Since a given agency can be included in more than one agency/program category, the sum of the total number of agencies listed in each of the categories far exceeds 57.

- **Education (14 Agencies)**: These programs provide opportunities for people in the community to acquire the knowledge, skills, desirable qualities of behavior and character, wisdom and general competence that will enable them to fully participate in and enjoy the social, political, economic and intellectual life of the community. This category has been subdivided into agencies which play a primarily advocacy/ public education role, and those which provide direct educational services in a classroom setting (e.g., schools in residential settings, special education classes, GED learning centers, etc.):

    - Public Education/Advocacy (6)
    - Direct Providers of Educational Services/ Classrooms (8)

  These breakdowns also happen to coincide fairly directly with the below- and above-$2 million budget level used in some of the other categories.

- **Health Care (17 Agencies)**: These are programs whose primary purpose is to help people in the community achieve and maintain physical well-being through the study, prevention, screening, evaluation and treatment of people who have illnesses, injuries or disabilities; and the provision of family planning, maternity and other services that relate to human reproduction. These include agencies providing direct medical services, health education/advocacy, rehabilitation services, etc. Because of the size of the category, for analysis purposes, the category is further broken down into three subgroups based on budget size:

    - Less than $2 million (6)
    - Between $2 million and $5 million (5)
    - $5 million or more (6)

- **Individual and Family Life (24 Agencies)**: These programs promote the personal, social and spiritual development of people in the community by providing services that replace or supplement the care and support that is generally available through the family unit, and by offering social, religious and leisure-time activities that are personally satisfying and lead to optimal social functioning. Because this category is so large, for analysis purposes, the category is further broken down into three subgroups based on budget size:

- Less than $2 million (10)
- Between $2 million and $5 million (7)
- $5 million or more (7)

- **Mental Health Care and Counseling (11 Agencies)**: These programs provide preventive, diagnostic and treatment services in a variety of community and hospital-based settings to help people to achieve, maintain and enhance a state of emotional well-being, personal empowerment and the skills to cope with everyday demands without excessive stress. Treatment may include emotional support, introspection and problem-solving assistance, utilizing a variety of approaches, for individuals ranging from the severely chronically mentally ill through those who are experiencing difficult life transitions or who are having problems coping with daily living. For analysis purposes, this category is further broken down into two subgroups based on budget size:

    - Less than $5 million (3)
    - $5 million or more (8)

- **Organizational/Community Services (8 Agencies)**: These programs provide any of a broad spectrum of services for the community as a whole including opportunities for individuals or groups to participate in community improvement or service projects, to have a voice in the political process, to have access to information services, or to benefit from the availability of a variety of services for residents, travelers, newcomers, community agencies, organizations, businesses and industry. For analysis purposes, this category is further broken down into two subgroups based on budget size and community focus (the smaller being neighborhood-focused and the agencies with the larger budgets serving the larger community):

- Less than $2 million (4)
- $2 million or more (4)

- **Substance Abuse (9)**: These programs provide preventive, diagnostic and inpatient, outpatient and residential treatment services as well as transitional support for people who have a physical and/or psychological dependency on one or a combination of addictive substances including tobacco, alcohol and/or other drugs; or whose use of these substances has impaired their physical or mental health or their personal, social or occupational functioning. For analysis purposes, this category is further broken down into two subgroups based on budget size:
  - Less than $2 million (4)
  - $2 million or more (5)

- **Multi-Service Agencies (8 Agencies)**: This group includes agencies that provide a wide range of services to a wide range of clients of all ages at a community-wide level. Although this group is comprised of mostly large agencies, there are one or two relatively small agencies that are included because they are very diverse in what they offer. All of these agencies are also in one or more of the previous categories. This category has not been subdivided.

Analyses and Benchmark Matrices

Once sorted, CGR used the Administrative and Agency/Program Type categories to profile what actual agency experiences have been with various administrative support and affiliation/collaboration options; the pros and cons of various options, as indicated by the agencies; initial expectations versus actual experiences, including any unanticipated consequences; implications for staffing (short-term versus longer-term); impact on service delivery and outcomes; stated reasons for perceived success or failure of the options; and potential implications of the options for other service providers.

The responses of the agencies, based on their actual reported experiences, are described in the narrative that follows in subsequent sections of this document, and are presented in more detail in the benchmark matrices which are presented in the appendices. The matrix or benchmark profiles are presented in terms of composite information or ranges, with no identification of individual agencies. By using the narrative analyses and the various matrices detailing the range of responses for comparable agencies, each service provider can identify the categories in which it fits and compare its experiences with those of agencies comparable in size and type, and can use such information to decide whether it should consider adoption of one or more of the various administrative support and affiliation/collaboration options in the future.

C. ADMINISTRATIVE SUPPORT CONTINUUM

The survey asked each agency executive to indicate any experiences his/her agency has had in the past five years, or any being considered, with options along a continuum of administrative support and affiliation/collaboration possibilities. For each of 10 types of options named, the executive was asked to check one of four possibilities: (a) the agency has not considered the option in the past five years; (b) the option is currently under consideration; (c) the agency considered and rejected the option; or (d) the agency has implemented some version of the option. Fifty-five of the 57 responding agencies provided answers to this section of the survey.

Of those 55, 46 (84%) reported that they had implemented one or more options (all but one agency had implemented some version of at least two of the options). Just over half (28) of the agencies reported that they had implemented some version of five or more of the options, including two which reported having implemented efficiencies in *every* one of the 10 option areas. *Only nine of the reporting agencies said they had not implemented any of the options, and six of those had efficiencies under consideration in several areas.* Overall, fully 69% of the agencies reported that they had one or more (typically several) options under active consideration, including 58% which had options under consideration in addition to other options which had previously been implemented within the past five years. Some cautions are in order in interpreting the data. It should be noted that this report does not measure how efficient the agencies are in these option areas. An agency may not be considering efficiencies in a particular option area because it is already operating very efficiently in that area. Since we asked agencies about only the past five years, agencies may have implemented efficiencies before that time that are ongoing. Caveats notwithstanding, it seems clear that a substantial proportion of the surveyed agencies have implemented, and are considering implementing, a number of the continuum of options.

The table below illustrates the breakout of responses to each of the 10 option areas. Each of the options is more fully explored in the following sections of the report.

Continuum Option	Not Considered	Considered & Rejected	Under Consideration	Implemented
Specific Internal Administrative Efficiencies (40)	10 (25%)	2 (5%)	6 (15%)	24 (60%)
Outsourcing/Contracting Out Specific Services (49)	7 (14%)	7 (14%)	9 (18%)	31 (63%)
Joint Purchasing (54)	17 (31%)	6 (11%)	11 (20%)	20 (37%)
Informal Sharing of Program or Admin. Staff Across Agencies (54)	21 (39%)	3 (6%)	9 (17%)	21 (39%)
Formal Consolidation of Administrative Functions (55)	27 (49%)	6 (11%)	11 (20%)	12 (22%)
Use of a Shared Services or Administrative Support Service (55)	29 (53%)	1 (2%)	7 (13%)	19 (35%)
Co-Location of Services (54)	13 (24%)	6 (11%)	10 (19%)	25 (46%)
Collaborative Efforts in Programs and Services (55)	4 (7%)	0	13 (24%)	41 (75%)
Joint Venture (55)	21 (38%)	5 (9%)	13 (24%)	16 (29%)
Merger or Affiliation of Two or More Organizations (55)	19 (35%)	9 (16%)	9 (16%)	20 (36%)

NOTE: %'s are based on the # responding to each option. In some rows, the total of the four columns equals more than the # of agencies that responded to the option, since some agencies marked more than one type of response. Others total less than 55 because not all agencies responded to a particular option.

As will be discussed in more detail below, nearly all agencies reported already being involved in collaborative programs and services with other agencies and/or having such collaborative efforts under consideration. Most of those responding (60% or more) have implemented one or more internal administrative efficiencies and reported outsourcing or contracting for one or more administrative support services. Almost half of the agencies reported co-location of services, with almost another 20% having co-location under active consideration. Between 35% and 40% of the responding agencies reported that they have implemented some form of each of the following: joint purchasing, cross-agency informal sharing of program or administrative staff, use of shared services/administrative support services, and some type of merger or affiliation. On the other hand, typically similar proportions of agencies had not considered those four options, and indeed just over half of the agencies had not considered using a shared administrative support services organization. Considerable resistance was also reported to the formal consolidation of administrative functions between agencies (more than twice as many agencies had not considered such an option as had implemented some form of it). Also, more agencies reported not considering joint ventures (creating a new entity for a specific purpose short of a formal merger or consolidation of agencies) than those that had implemented some form of that option (38% vs. 29%).

As shown in the table, in addition to options already implemented, all options along the continuum are reportedly being considered by a number of agencies:

- Collaborative Program/Service Delivery Efforts (13)
- Joint Ventures (13)
- Joint Purchasing (11)
- Formal Consolidation of Administrative Functions (11)
- Co-Location of Services (10)
- Outsourcing/Contracting Out Specific Services (9)
- Informal Sharing of Program or Administrative Staff (9)
- Merger or Affiliation of Two or More Agencies (9)
- Use of Shared Services/Administrative Support Services (7)
- Specific Internal Administrative Efficiencies (6)

It was typically not possible from the survey to determine how actively any of those options are being considered by the agencies. However, several of the agencies volunteered that serious consideration is being given to implementing at least one of the options, and some indicated that they are in the middle of active discussions concerning the possibility of jointly implementing one or more options.

Twenty-five agencies (45%) have considered and rejected one or more options, although it should be noted that all but three of those agencies have also implemented some version of two or more other options. The primary area for consideration and rejection was Merger and Affiliation, with nine agencies ultimately rejecting that option. The Outsourcing and Joint Purchasing options had seven rejections each; Formal Consolidation of Administrative Functions and Co-location of Services had each been considered and rejected by six different agencies; and five agencies reported having rejected Joint Venture options. The other options have three or fewer rejections. In each of the 10 options, more agencies reported having implemented some version of the option than had reported considering and rejecting the option. Reasons why some of the rejections did not work out are explored in more detail in the appropriate sections later in the report.

As indicated above, nine agencies reported that they have not implemented any of the options in the past five years. Of those, most are relatively small agencies, offering few separate programs and with annual budgets totaling under $2 million. Most are among the more specialized agencies that may have more difficulty finding others to partner with to share services. Two of those marked Not Considered for every option, but six said they have at least one item under consideration.

In summary, most of the agencies that responded to the survey have been active in implementing various options along the continuum, and are actively considering other options. (It is also worth noting that CGR is aware that several of the agencies which did not respond to the survey have also implemented various options, so there does not appear to be an obvious response bias in favor of only those agencies which have been actively engaged in implementing various efficiencies and other collaborative options.)

The profiles and response patterns for each of the 10 options are presented in more detail in matrices in Appendix C, including separate breakdowns by different types and characteristics of agencies. Those profiles/benchmarks and their implications are discussed more thoroughly for each of the 10 options in the text that follows.

D. Specific Internal Administrative Efficiencies

This category includes a wide variety of efficiencies that can range from asking a staff member to pick up an added duty or two to a more formal restructuring that may eliminate an outdated position or add a new, necessary position. As shown in the earlier table on page 14, the responding agencies reported that ten have not considered internal efficiencies, two have considered and rejected some efficiency options, six have some efficiencies under consideration, and 24 have implemented specific internal efficiencies. Many agencies noted that they participate in an ongoing, continuous evaluation of internal administrative functions and that the implementation of these types of administrative efficiencies is routine. Others noted that because of past changes they are now at a very efficient level administratively and cannot or do not need to make further changes. Of those agencies that were not considering changes in this area, most have implemented a variety of efficiencies in other option areas.

The charts on the pages 19 and 20 display the patterns of response to the internal administrative efficiency option in more detail, by various administrative characteristics of agencies and by agency/program type. These charts are lifted from two larger charts or matrices detailing all ten options in the continuum. Those matrices/profiles/benchmarks are presented at the end of the report as Appendix C. As indicated previously, *60% of the agencies responding to this option reported that they had implemented some type of internal administrative efficiencies, and another 15% had other efficiencies under consideration.* The overall pattern shown earlier in the table on page 14 typically holds true for most subgroups of agencies, except that *the agencies least likely to have considered implementing internal efficiencies tend to be the smaller agencies* (in terms of smaller budget, administrative staff and number of funding sources, and a relatively high ratio of administrative to program staff). Agencies in the program areas of Mental Health Care and Counseling, and Substance Abuse, as well as the Multi-Service Agencies, have implemented efficiencies at high rates; all report at this time having no new efficiencies under consideration.

Breakdowns by Administrative Categories				
Specific Internal Administrative Efficiencies				
	Not Considered	Considered and Rejected	Under Consideration	Implemented
Total Expenses				
-$600,000 and under (9)	3	0	1	3
-$600,001-$1,000,000 (8)	1	0	1	2
-$1,000,001-$2,500,000 (11)	3	1	2	8
-$2,500,001-$5,000,000 (8)	3	1	1	1
-$5,000,001-$10,000,000 (7)	0	0	0	4
-Over $10,000,000 (12)	0	0	0	5
Total (55)	**10**	**2**	**5**	**23**
Administrative Staff (FTEs)				
-3 and under (11)	4	0	0	5
-3.1 to 5 (10)	1	1	3	4
-5.1 to 8 (8)	2	0	2	2
-8.1 to 10 (6)	1	1	0	3
-10.1 to 15 (6)	1	0	1	3
-15.1 to 25 (8)	0	0	0	4
-26 and over (7)	1	0	0	3
Total (56)	**10**	**2**	**6**	**24**
Number of Programs				
-4 and under (9)	2	0	1	4
-5 to 7 (11)	1	0	1	6
-8 to 9 (10)	3	1	2	6
-10 to 12 (10)	2	0	0	3
-13 to 20 (9)	2	0	2	2
-21 and over (7)	0	1	0	3
Total (56)	**10**	**2**	**6**	**24**
Number of Sites				
-1 (16)	4	1	3	7
-2 or 3 (14)	2	1	3	5
-4 to 9 (12)	2	0	0	5
-10+ (13)	2	0	0	7
Total (55)	**10**	**2**	**6**	**24**
Administrative/Program Staff Ratio				
-Under 1:3 (10)	3	0	2	0
-1:3 to 1:3.9 (9)	2	0	1	5
-1:4 to 1:5.9 (10)	3	1	1	3
-1:6 to 1:7.9 (9)	2	0	1	4
-1:8 to 1:10.9 (7)	0	0	0	6
-1:11 and up (8)	0	1	1	4
Total (53)	**10**	**2**	**6**	**22**
Number of Agency Funding Sources				
-4 and under (13)	3	0	1	6
-5 to 7 (9)	2	0	1	3
-8 to 11 (9)	4	0	2	1
-12 to 19 (12)	0	1	0	7
-20 and up (10)	0	1	1	7
Total (53)	**9**	**2**	**5**	**24**
Occupancy Cost per Square Foot				
-$0.00 to $6.99 (10)	2	1	2	4
-$7.00 to $9.99 (8)	1	0	0	3
-$10.00 to $10.99 (9)	2	0	1	3
-$11.00 to $13.99 (7)	1	0	0	4
$14.00 or more (6)	1	1	1	4
Total (40)	**7**	**2**	**4**	**18**
Program Svcs. As % of Total Expenses				
-69% and under (2)	0	0	0	1
-70% to 79% (14)	3	0	2	5
-80% to 86% (12)	3	1	1	5
-87% to 89% (12)	3	1	2	6
-90% or more (13)	1	0	1	5
Total (53)	**10**	**2**	**6**	**22**

Note: Not all agencies responded to this option. Each agency that did respond is included six times in the above table: once, in one subgroup, within each of the six main categories.

Breakdowns by Agency/Program Type				
Specific Internal Administrative Efficiencies				
Agency Type	Not Considered	Considered and Rejected	Under Consideration	Implemented
Basic Subsistence/Income Security				
-Less than $2 million (7)	0	0	2	3
-$2 million to $5 million (4)	0	1	0	1
-$5 million or more (5)	0	0	0	3
Total (16)	0	1	2	7
Criminal Just. & Legal Svcs. (3)	2	1	1	1
Education				
-Public Educ./Advocacy (6)	0	0	1	4
-Direct Providers (8)	1	0	1	4
Total (14)	1	0	2	8
Health Care				
-Less than $2 million (6)	0	0	1	2
-$2 million to $5 million (5)	2	0	1	1
-$5 million or more (6)	0	0	0	2
Total (17)	2	0	2	5
Individual and Family Life				
-Less than $2 million (10)	1	0	1	6
-$2 million to $5 million (7)	3	1	1	1
-$5 million or more (7)	0	0	0	5
Total (24)	4	1	2	12
Mental Health Care and Couns.				
-Less than $5 million (3)	2	0	0	0
-$5 million or more (8)	0	0	0	6
Total (11)	2	0	0	6
Organization/Community Svcs.				
-Less than $2 million (4)	2	0	0	1
-$2 million or more (4)	0	0	0	2
Total (8)	2	0	0	3
Substance Abuse				
-Less than $2 million (4)	0	0	0	3
-$2 million or more (5)	0	0	0	4
Total (9)	0	0	0	7
Multi-Service Agencies (8)	0	0	0	6
Total - All Agencies (40)	10	2	6	24

Note: Not all agencies responded to this option. Agencies are often included in more than one of the nine main categories of agency types.

In Question 1 of the survey, agencies were asked to specify in more detail how they provide a wide range of 14 administrative support functions. They were asked to identify the number of FTEs (full time equivalents) by title of agency staff members who currently spend time devoted to each of the 14 listed functions, along with the approximate number of hours per week devoted to each function by each job title position. The agencies were asked to indicate what services are contracted out, or provided on a shared-service basis, in whole or in part, and if so, the annual cost of doing so. Agencies were also asked to note support functions for which any recent changes or administrative efficiencies had been implemented.

The agencies handle these functions in a variety of ways. In general, in smaller agencies -- particularly those with total annual expenses of $1,000,000 or under and in agencies with 5 or fewer FTE administrative staff (agency administrative staff not routinely involved in direct provision of services or programs) -- top administrators are involved across almost the whole spectrum of administrative activities. For example, the executive director, CEO or other top administrator is far more likely to be directly involved in such functions as purchasing, human resources, benefits management, fund raising and grant writing, public relations and marketing, and program evaluation. This type of hands-on involvement virtually disappears among larger agencies.

Interpreting the Charts

Each of the 14 administrative support functions is detailed in the following sections. In order to understand those sections, the reader will need to refer to the matrices in Appendices D through R. Those matrices or charts sort the information provided on the surveys in a variety of ways to allow comparison between agencies of different types and sizes. For each of the 14 administrative support functions, two charts appear within the appendix for that function: one that breaks down agencies according to Administrative Category Information (e.g., total annual expenses of the agency, number of administrative staff, separate programs and sites, etc.), and another that breaks down agencies according to Agency/Program Type. As shown in the example on page 23, the chart type is listed on line one of each chart. The second line of each chart identifies the administrative services function covered by that chart (e.g., overall agency administration, financial management/bookkeeping, payroll, purchasing, etc.). The third line gives information specific to that chart: e.g., when agencies did not outsource or number of agencies that did not provide cost data for outsourcing.

By column, the first column lists the breakdown categories used, the total number of agencies responding (in parentheses after the bold heading signifying the overall category name such as Total Expenses, # of Administrative Staff, Education Agency/Program Type), the breakdown subcategories under each category, and in parentheses the total number of agencies in each subcategory (first number) and the total number actually providing a response for the particular administrative function (second number). Columns two and three apply *only* to agencies that *do not* outsource any part of that function. The second column shows the range of agency staff full-time equivalents (FTEs) assigned to that function within each subcategory, with the median[3] figure in parentheses. (Given the promise of anonymity of responses, we could not provide individual agency information for each agency, so we agreed to provide ranges and medians to present the data within subcategories.) The third column shows the range of number of agency staff hours per week devoted to that function within the subcategory, with the median figure in parentheses. In each of these columns, a median figure is only given if three or more agencies are referenced; with only one or two agencies, the numbers are as provided.

In charts for functional areas where outsourcing *is* used, three additional columns apply *only* to agencies that outsource all or part of a function. The fourth column shows the range of agency staff FTEs assigned to that function to supplement any outsourcing that occurs, with the median in parentheses (if needed, as described in the paragraph above). The fifth column shows the range of staff hours per week assigned to that function, with the median in parentheses. The sixth and final column shows the range of outsourcing costs (where provided), the number of agencies whose outsourcing costs are not available (N/A), a median cost as needed (in parentheses), and also in parentheses an

[3] The median is the middle number in a sequence, or the average of the middle two numbers when the sequence has an even number of numbers. One half of the given numbers will be below the median, and one half above.

additional set of numbers: the number of agencies in the subcategory that outsource (first number) and the number of those agencies that outsource the function *exclusively*, with *no* staff time assigned to that function. An example follows:

Appendix E – Administrative Information					
Financial Management/Bookkeeping/Accounting					
Not all agencies responded to each question, therefore total number may vary in each section. Outsource figures are based on actual costs provided by agencies. One agency said it outsourced this function, but did not provide the cost.					
	No Outsourcing		**With Outsourcing**		
	# of FTE (median)	**Hrs/week (median)**	**# of FTE (median)**	**Hrs/week (median)**	**Outsource Cost (median)**
Total Expenses (55)					
$600,000 and under (9-6)	0.5-1.0 (0.68)	15-35 (21.75)	0.15	6	$4,020-$5,000 (2-1)
$600,001 to $1,000,000 (8-8)	0.2-1.69 (0.75)	7.5-59 (25)			1 N/A (1-1)

This "mini-chart" should be interpreted as follows: Fifty-five agencies provided answers to the Total Expenses question. Nine of those agencies fall into the $600,000 and under level, and six of the nine answered the question regarding FTEs and time spent on the Financial Management function. Since two of those six agencies are listed in the last column as outsourcing at least a portion of this function within this expenses subcategory, we know that four agencies provided the Financial Management function exclusively with in-house staff: a range of 0.5 to 1.0 FTE (median 0.68 FTE) and 15 to 35 hours (median 21.75 hours) spent on this function. Thus no agencies in this subcategory are allocating more than the equivalent of one full-time person to the Financial Management task. Two agencies with total expenses of $600,000 or less outsource at least a portion of the function: one spends $4,020 and the other spends $5,000. One of those two agencies also assigns 0.15 staff FTE, six hours per week to this function. In the second Total Expenses category shown, eight agencies are represented, all of which provided the requested information. One of the eight provides the Financial Management function exclusively by outsourcing, but the costs of providing the function were not provided. The other seven agencies in this subcategory provided the function with only in-house staff, ranging from 0.2 to 1.69 FTEs, with a median of 0.75 FTE.

Overall Agency Administration (e.g., CEO, Deputy, etc.)

As noted, there are two charts on Overall Agency Administration, one detailing breakdowns by administrative categories and the other detailing breakdowns by agency/program types. These matrices appear as Appendix D. No agencies outsource any duties for this overall administrative function.

The reported range for FTE administrators is from 0.03 FTE to a high of 6.0 FTEs, with a median of 1 FTE across all the administrative information sorts that were done. The number of hours spent on these functions by the FTEs varied widely, with as little as 1.25 hours or as much as 240 hours spent on overall top-level agency administration. Four agencies responded to number of hours by noting 35+, 40+ or 1 FTE/60, illustrating that executives at this level often put in more than the standard number of hours to get the job done. The 0.03 FTE/1.25 hours was in an agency where the top officer does a little of every administrative function. As would be expected, the higher numbers of FTEs and hours (particularly as reflected by the higher medians) were generally located among the agencies that were in the higher subcategories under each sort (e.g., the larger agencies, with more administrative staff, more programs and sites, etc.). Yet the 6.0 FTE/240 hours appeared on the higher end of the total expenses, number of administrative staff, and number of sites subcategories; in the middle range of the number of programs and administration/program staff ratio sorts; and in the lowest range in the number of agency funding sources subcategory. Moreover, *several relatively large agencies are managed by a single FTE administrator, whereas several relatively small agencies have as many as two top-level administrators.*

In the agency/program type sorts, the agencies with the higher numbers of FTEs and hours are clustered in the Individual and Family Life (especially $5 million and over), Organization/Community Services ($2 million and over) and Multi-Services categories.

Financial Management/ Bookkeeping/ Accounting

As reflected in the two charts on Financial Management/ Bookkeeping/Accounting in Appendix E, most agencies continue to provide financial management services on an in-house staffed basis, with only seven agencies reporting that they outsource some or all of the duties for this administrative function. And of those, only three appear to have outsourced the entire function, with no internal staff supplementary support. Outsourcing reported at this point typically costs the agencies less than $10,000 for the services. With so few agencies outsourcing this service, there appear to be no major differences in patterns between subcategories, except that none of the multi-service agencies outsource this function, and *those that do contract out some or all of the function tend to be agencies with small numbers of funding sources.*

There is a wide range in the number of in-house staff FTEs assigned to this function, from 0.2 through 26. The hours spent on this function range from 7.5 through 1,040. In viewing the subcategories, generally the smaller agencies manage this function with one to two FTE staff or less, occasionally supplemented by outsourcing support. Larger numbers of FTEs and hours spent on this function correlates with the larger subcategories under each overall administrative category type. In the agency/program type sort, those agencies with the highest staff FTEs and hours spent on this function are clustered in the Individual and Family Life and Mental Health Care and Counseling categories, in the $5 million and over range in each, and in the direct Education services subcategory. In each case, little or no supplemental outsourcing occurs.

Payroll

Appendix F provides the matrices which document how payroll services are provided by the agencies. Few agencies report devoting more than one FTE internal staff to the payroll function. There is a very slight tendency for the larger agencies to devote more internal staff resources to the function, but this pattern is less pronounced than in most of the other administrative functional areas. *More than half (23 of 44 reporting agencies on this variable) outsource some or all of this administrative function.*

Of the 23 agencies that reported outsourcing, 13 contract out the entire payroll function, and report that no internal staff members are involved. The other 10 outsourcing agencies assign at least some agency staff time to this function. Even with the outsourcing of the primary responsibility of the payroll function, there still may need to be someone within the agency tracking and reporting on hours worked, filling out any necessary tax forms, and tracking vacation/sick/holiday time. In addition to these duties, there also may be internal accounting time spent to transfer funds to the payroll account. Nonetheless, most of the internal staff coordinating time typically accounts for only a portion of a staff person's time, with few agencies reporting the need for a full-time person to supplement any outsourced payroll functions.

Typically, agencies do not spend significant amounts of money on contracting out the payroll function. The reported agency costs of outsourcing range from $1,077 to $35,000, with an overall median of $2,050 (with five agencies not reporting the cost). Only a few larger agencies appear to pay more than $5,000 for outside payroll processing.

According to the matrices in Appendix F, agencies that outsource this function are spread throughout all categories. There appears to be some clustering of payroll outsourcing among smaller agencies with relatively small budgets, no more than 3 sites and 3 or fewer administrative staff. Agencies in the higher ranges in each category are less likely to outsource some or all of the payroll function.

The agency/program type sort reveals that agencies that provide Organizational/Community Services and Basic Subsistence/ Income Security are least likely to outsource payroll. Conversely, agencies providing Education and Substance Abuse services were most likely to outsource this function.

Purchasing

As indicated in Appendix G, 30 agencies reported that they assign designated staff time to purchasing, and in most cases the responsibility is shared with other administrative tasks. Few agencies have a full-time person devoted to purchasing. The range is from 0.03 FTE/1 hour to 2.57 FTE/90 hours, with the median at 0.3 FTE/10 hours spent on purchasing per agency. An additional eight agencies did not list FTEs and hours for this function, but did note that some staff time formally assigned to other administrative areas was spent handling purchasing duties. *No agencies reported that they outsource this administrative function.*

According to the administrative category breakdowns, staff time spent on purchasing generally increases somewhat with the size of the agency, across all categories, although only at the largest agency levels are there many full-time purchasing staff. Within the agency/program subcategories, agencies in the Education, Mental Health/Counseling and Multi-Service Agency categories, and the larger Individual and Family Life agencies, appear to assign somewhat more staff time to the Purchasing function than do other areas.

Human Resources/ Personnel

About 70% (39) of the responding agencies provide dedicated Human Resources/Personnel attention, through some combination of staff with explicit HR responsibilities and outsourcing. As shown in Appendix H, 30 agencies report having only internal staff focused on the function, another six address the issues with a combination of staff and outsourcing, and three agencies outsource the entire function. An additional nine agencies assign this HR/Personnel function to other personnel, including the Executive Director, Payroll and Financial Management. *Six agencies reported that they do not assign any staff or outsourcing time to Human Resources.*

The agencies that do not outsource this function assign from less than 0.1 FTE/0.5 hours per week to 7.43 FTE/260 hours to human resources duties. The median assigned is 0.5 FTE/20 hours. The six agencies which combine internal staff with outsourcing assign from 0.2 FTE/7 hours to 2.5 FTE/92.5 hours to human resources, with the median at 1.25 FTE/45 hours a week. The charts in Appendix H indicate that time and personnel assigned to this function generally increase as the size of the agency increases. *Less than a full-time staff presence is devoted to this function in most agencies, except within the larger providers* (those with higher annual expenditures, more administrative staff, more programs and site locations). *Many of the smaller agencies have no dedicated HR presence, and relatively small FTEs devoted to the function if at all, but nearly all the larger agencies have some combination of internal staff or outsourcing to provide the HR function.* The median cost for the few agencies that outsource these functions is $9,360, with the range from $4,680 to $49,920 (the latter is the cost for an agency that has outsourced its entire HR function).

There appear to be few significant differences across agency/program types in the proportion of agencies with a dedicated staff and/or outsourcing commitment to the HR function. Differences across types of agencies are more a function of the size of the agency within those groups than between the basic agency types per se.

Benefits Management

As shown in Appendix I, *the Benefits Management function receives relatively little dedicated attention from the majority of human service agencies included in this study.* Less than half of the agencies (25) reported focused attention on the function, 19 of which included dedicated staff time. Time assigned to benefits management by those agencies was relatively light, ranging from 0.01 FTE/0.25 hours to a maximum of 1 FTE/40 hours. The median is 0.2 FTE/7.5 hours. In addition, seven agencies outsource some part of this administrative function, typically with little or no supplemental staff support from the agencies. For those agencies that outsource, three list no additional agency staff time assigned, one lists 0.03 FTE/1 hour per week, and three agencies list limited support time spent by personnel assigned to other functions. The cost of outsourcing, where provided, ranges from $830 to $40,820, the apparent aberration, with the median at $1,500.

Thirteen agencies reported that they devote no designated time to benefits management, and another 15 indicate that occasional time may be spent on this function by the Executive Director or personnel assigned to Human Resources, Payroll, or Purchasing.

A review of the administrative category breakdowns indicates that, as with most of the functions, time assigned to this area generally increases as agency size increases. However, even at the larger agency level, few agencies devote more than a fraction of an FTE to the function. No particular types of agencies appear to devote substantial amounts of focus to this function. Agencies in the Substance Abuse category and the smaller end of the Health Care category appear to be among the least likely to receive any significant benefits management attention.

Staff Development/ Training

One-third of the agencies (19) outsource and/or devote dedicated staff time to the Staff Development/Training function. As indicated in Appendix J, 11 agencies handle this function exclusively through in-house staff, and eight agencies outsource some or all of this administrative function (two of the eight involve a combination of staff and outsourcing; the other six agencies provide all staff development services on an outsourced basis). *Thirty-one agencies (55%) assign no time to staff* *development/training*, and six agencies assign the function to the Executive Director or staff assigned to Human Resources.

For the agencies assigning staff time to this function, the times assigned range from 0.06 FTE/2 hours to 4 FTE/140 hours, with the median being 0.14 FTE/5 hours. *Only three agencies reported that they allocate as much as one FTE to the staff development function.* The larger agencies are more likely to provide staff development and training using in-house staff, while outsourcing the function is more likely to occur among smaller organizations. The cost for outsourcing ranges from nothing (because of membership in a state-wide association) to $13,100 (median $4,161).

The number of FTEs and hours assigned to staff development is largest in Education (direct providers), Individual and Family Life ($5 million or more), and Mental Health Care and Counseling ($5 million or more). The responding *Health Care agencies reported almost no activity in staff development efforts, either through in-house staff or outsourcing efforts.*

Facilities Maintenance/ Custodial Services

As indicated in Appendix K, nearly all agencies devote some combination of dedicated staff time or outsourcing to the Facilities Maintenance/Custodial Services function. Only five agencies listed no staff time assigned to maintenance functions, and one agency listed maintenance functions as assigned to "staff" in general.

Most (30) of the agencies reported that they outsource some or all of this administrative function. Of those, 20 outsource the entire function. The remaining 10 maintain a combination of outsourcing and use of assigned in-house staff, ranging from 0.03 FTE/1 hour to 4 FTE/140 hours. The median is 0.5 FTE/20 hours. For the 19 agencies that do maintenance/custodial functions in house, the FTE/hours range from 0.03 FTE/1 hour to 29.71 FTE/1,040 hours, with the median being 1.75 FTE/65.63 hours.

For those agencies that outsource, ten listed this function as "included in rent," listed no costs, and assigned no staff time to it. For those agencies that explicitly contract for maintenance services, the costs of outsourcing this function range from $700 to $195,000, with another large contract for about $72,000. The median outsourcing cost is $5,800.

As shown in the Appendix, both the assigned agency staff time and outsourcing costs for custodial/maintenance services rise as the size of the agency and the number of sites increase. Otherwise, *outsourcing of maintenance/custodial functions occurs across all categories and subdivisions, with about half or more of the agencies in almost every subcategory outsourcing these functions.* (For the Total Expenses category, only one-third of the agencies in the $10,000,001 and over category outsource this function.) In the agency/program type breakdowns, Substance Abuse and Health Care agencies were most likely to outsource, with few complementary in-house staff support, while Organization/Community Services agencies tend to exhibit the opposite pattern. Mental Health and Multi-Service agencies tend to provide substantial amounts of both in-house and outsourced services in this area.

Security

To the extent that agencies devote explicit attention to the Security function, most do so on an outsourcing basis. As indicated in Appendix L, *less than half of the agencies (26) report either outsourcing or devoting dedicated staff to security. Of those, 21 agencies outsource the function* (20 outsource the entire function, and one maintains an unspecified in-house staff presence to supplement the outsourced services). Very few agencies (five) have security assigned exclusively to designated in-house staff members. For those agencies the staff and time assigned ranges from 0.10 FTE/3.5 hours to 6.86 FTE/240 hours (median 1 FTE/35 hours).

For those that outsource this function, 11 list it as included in their rent (with one of those agencies assigning 2 FTE/75 hours to security over and above what is provided). For the 10 agencies that pay explicitly for security services, the costs range from $180 to $78,000 (median $600, which is deceptive, in that several have contractual amounts such as $20,000 and $32,000 per year). The wide range of costs can be explained by the variety of available security services, from alarm systems through round-the-clock security guards. Those agencies that pay for outside security services do not assign additional staff time to security.

The breakdowns by administrative categories suggest that *time assigned to and outsourcing of security both increase as total agency expenses and the number of agency sites increase.* For whatever reasons, more attention is allocated to security as the number of agency funding sources increases. In the agency/program type breakdowns, less than half of the agencies in many categories indicated that they provided a clear focus on security. The exceptions were Education (direct service providers), Health Care (mostly through outsourcing covered by rental costs), Mental Health ($5 million or more), Substance Abuse ($2 million or more), Individual and Family Life ($5 million or more), and Multi-Service agencies. In each of these, more than half the agencies provided some specified focus on security.

Fund-Raising/ Grantwriting

Of the agencies responding to questions about these functions, 43 reported that they provide focused staff or outsourcing attention to Fund-Raising and Grantwriting. *Most of those agencies provide the functions directly with their own designated staff. As indicated in Appendix M, only six agencies outsource some part of these administrative functions*, including four agencies which contract out all related tasks, and two which supplement the outsourced functions with a few hours per week of assigned in-house staff. For the seven agencies that outsource, only three indicated the contractual costs, ranging from $5,000 to $10,000.

For the 39 agencies that assign staff to fund-raising and grantwriting, the assigned FTEs and time range from 0.05 FTE/1.98 hours to 5 FTE/175 hours (median 1 FTE/36.25 hours). In addition, four agencies listed these functions as the responsibility of the Executive Director/CEO and did not break out specific hours allocated to these tasks.

Data shown in the Appendix suggest that staff and time spent on fund-raising and grantwriting generally increase as agency size increases. This does not seem true for outsourcing, however, as the few agencies that outsource in this area tend to be concentrated within the smaller to mid-size agencies. Across agency/program types, about three-quarters of the agencies in each category assign staff time to or outsource these functions. Again, the highest concentration of FTEs and hours spent on this function is typically in those agencies, regardless of agency type, with budgets above the $5 million level. To the extent that agencies outsource these services, they tend to be concentrated among Individual and Family Life agencies. No agency in the

Health Care and Education areas reported outsourcing these functions.

Public Relations/ Marketing

Thirty-five agencies reported that they assign staff and/or contract for services to carry out Public Relations/Marketing tasks. Six of the agencies outsource the functions, including four which contract out for all PR/Marketing services, and two which supplement the outsourced services with about 9 to 12 hours per week of dedicated staff time. In the 29 agencies that provide all PR/Marketing tasks exclusively with dedicated staff, the assignments range from 0.07 FTE/2 hours to 2 FTE/80hours, with the median being 0.8 FTE/30 hours. In addition, four agencies assign these functions to the Executive Director, to fit in among his/her other responsibilities. For the agencies that outsource, costs range from $500 to $16,000 (median $10,000).

As indicated in Appendix N, several mid-size agencies have full-time persons devoted to PR/Marketing efforts. In general, however, both the FTEs assigned and the time allotted generally increase with the size of the agency. Conversely, to the extent that these services are outsourced, it is more likely to happen among smaller to mid-sized service providers. Across types of agencies, generally all types are likely to devote dedicated efforts to HR/ Marketing tasks. However, as in the previous category, outsourced services tend to be concentrated among agencies in the Individual and Family Life category. No agencies in the Criminal Justice/Legal Services, Health Care, or Education-direct services categories reported outsourcing any PR/Marketing tasks.

Volunteer Management/ Coordination

Just under half (26) of the agencies reported assigning staff to Volunteer Management/Coordination tasks. As shown in Appendix O, no agencies reported outsourcing this function. For the 26 agencies assigning staff and time to this function, the range is from 0.01 FTE/0.48 hours to 13.28 FTE/465 hours (median 0.5 FTE/17.5 hours). In addition, three agencies assign this function to the Executive Director or Deputy Director, two assign it to Fund-Raising/Grantwriting staff, and one agency assigns this function to individual programs. No volunteer management hours were specified for those individuals. Eighteen agencies do not list any staff or hours for this function.

As with earlier administrative functions, the number of FTEs and hours increases somewhat as agency size increases. The one exception that can be seen in the administrative category breakdowns is an agency that fits in the mid-level of each category that runs primarily on volunteers. It must expend a large amount of staff time, out of proportion to other agencies at its level, to maintain its programming. By type of agency, two subcategories, Substance Abuse and Health Care (less than $2 million) agencies have little or no staff assigned to this function

Administrative Secretarial Support/ Reception

Almost every agency assigns some staff and hours to the Administrative Secretarial Support/Reception function. *Three agencies even outsource some clerical support services to supplement existing staff efforts.* For those agencies that do not outsource, the median is 2 FTE/80 hours per week, with a range of from 0.15 FTE/6 hours to 54.86 FTE/2,080 hours. For the three agencies that do outsource, the contracted staff supplement the efforts of existing full-time staff ranging from 1 FTE/37.5 hours to 1.8 FTE/63 hours. Two of the outsourcing agencies provided costs of their contracted services ranging from $8,400 to $20,000. Beyond these efforts, one agency reported that all clerical support functions were carried out by the Executive Director.

Not surprisingly, as shown in Appendix P, the amount of administrative secretarial support generally increases as the size of the agency budget, the number of administrative staff, the number of programs, and the number of sites increases.

Program Evaluation/ Measurement/ Quality Control

A total of *28 agencies reported that they devote dedicated staff time to this Program Evaluation/Measurement/Quality Control function.* As shown in Appendix Q, the times range from 0.06 FTE/2 hours per week to 14 FTE/490 hours (median 0.86 FTE/30 hours). In addition, eight other agencies assign this task to Executive Directors and/or Deputy Directors, while four agencies assign it to programs. One agency assigns this task to the Program Developer. *Seventeen agencies assign no resources to this function, and no agencies reported outsourcing the function.*

As in many of the earlier functions, the administrative category breakdowns in the Appendix show that staff time assigned to this function tends to increase with the size of the agency budget, the number of administrative staff and the number of funding sources.

However, *at nearly all size agencies, there are indications of at least some full-time evaluation staff within selected service providers.* Multi-service, Mental Health, Education and Individual and Family Life agencies appear to be most likely to engage in program evaluation, while Substance Abuse and Health Care agencies seem to be the least likely to do so.

Other Administrative Functions

Four charts appear in Appendix R showing Other Administrative Functions listed by the agencies. Two provide detail on Management Information Services (Computers) and the other two detail other administrative functions reported by the responding agencies.

Of the other administrative functions listed by the responding agencies, MIS (computer support) was the most frequently noted, with 19 agencies listing it as a major administrative function. (Note that it is likely that many others would have listed staff time for the MIS function had it been specifically requested, so *the information in Appendix R is likely to be on the conservative side in identifying the extent to which staff resources are devoted to this issue across agencies.*) *Eight of the 19 agencies outsource this function.* For the agencies that do not outsource, the assigned times devoted to MIS activities range from 0.07 FTE/2 hours to 11 FTE/385 hours per week (median 1.63 FTE/57 hours). The agencies that outsource this function, with one minor exception, do not provide any supplemental internal staff time for MIS. The annual costs of contracting for MIS services ranged from $1,300 to $50,000 (median $6,500).

The administrative category breakdowns in the Appendix show that there are at least some agencies in most of the categories, although more MIS resources appear to be concentrated within the larger agencies. *Most smaller agencies do not appear to focus as much attention on MIS, even though they certainly have computer equipment and, though the scale may be different, certainly have computer/MIS/technology-related needs and issues to resolve as well.* By type of agency, subject to the above caveats about what information was volunteered in the survey, most agencies in the Substance Abuse and Organization/ Community Services categories appear to have fewer staff or outsourcing resources to address MIS issues than do other types of agencies.

Responding agencies also list a variety of other administrative functions that were not covered in the other areas given. These include functions such as Operations, Records, Loan Servicing, and Bulk Mail Service, as well as positions such as Program Directors and Adult Education Specialists. The assigned FTEs and hours for these functions ranged from 0.5 FTE/20 hours to 5 FTE/175 hours (median 1 FTE/37.5 hours). Only one of these functions was outsourced, the Bulk Mail Service, at a cost of $800-$1,000.

Recent Changes

Of the recent internal administrative efficiency changes noted, the most popular seem to be restructuring or consolidation of departments and/or job duties. Such restructurings may result in the loss of positions that are no longer necessary, and some resulting cost savings or reallocation of resources to direct services. Positions have been eliminated when they did not pay for themselves. More often, however, changes seem to include the addition of staff to deal with specific areas that were not addressed well in the past. Usually this happens because an agency has grown and now needs a more specialized person to oversee certain areas, such as Human Resources, Purchasing, or Facilities. Still other agencies reorganized job duties among existing positions to make better use of the time and expertise of existing personnel -- for example, having a director oversee two areas, rather than one. Agencies indicated that a new position is expected to pay for itself in terms of agency development after an initial payback period. The initial payback period covers the costs involved in hiring and training the new person. It appears from this survey that restructuring usually involves Director/high administrative level personnel, rather than lower level administrative staff.

Other implemented efficiencies included technical upgrades, reduced program supervision, shared services within the agency, and seeking out better telephone rates. Comments from agencies regarding their recent administrative efficiencies include:

- We consolidated our Business Services Office with the Finance Department. As part of the consolidation, specific positions were established which deal with Purchasing and Facilities. We have derived substantial benefits from the specialization of the services.

- The Human Resources Department restructured to create a Special Projects Coordinator and the position of Employment Coordinator. With the multitude of requests coming in to the department and with our desire to ensure the best available benefits to our staff, the Special Project Coordinator has proven invaluable.

- Staff restructuring—re-instituted Director of Programs and Operations position for program support and supervision.

- Volunteer coordinator duties have been picked up by another staff member. We also reorganized into four main lines of business, and rearranged the portfolios of our VPs accordingly. This allowed us to eliminate two program manager positions, with those duties being picked up by a vice president.

- Hired a full-time Development Director in 1999. Have not had sufficient experience to determine actual impact. Position is expected to pay for itself within two years.

- The position "Communications and Development Director" was eliminated. It did not support its cost.

- Combined two positions with FTE of 1.6 into one position with FTE of 1. Possible, due in part, to purchase of new software.

One agency noted that the steps it took to lower costs were not necessarily the most efficient for its continued operations:

- Administrative Secretarial Support/Reception: utilizing program staff for reception is not most efficient and requires more oversight than one designated receptionist. Also does not offer the most dedicated service at all times. Eliminating secretarial support from administration has required all administrators to prepare all work materials and also is not the most efficient or cost effective. Also requires shortcuts to be taken when not always the best policy.

Under Consideration

Responding agencies also have a variety of efficiencies that they are considering for implementation in the future. Some of these efficiencies are expected to cut costs. Other efficiencies, such as expanding an existing personnel function or adding a personnel function, include the hiring of new staff, which will raise costs to the agency but provide improved handling of personnel matters and improved recruiting of qualified employees. Other efficiencies under consideration by various agencies include:

- Continuously look at opportunities to operate more efficiently and effectively.

- We expect to add a security guard to our staff rather than outsourcing this service. Doing so would save us money and improve the compensation package of the guard at the same time. We currently contract with a security agency.

- Have enlisted the assistance of a consultant to redesign the Financial Services function into a world-class, value added service.

- Must add a quality assurance person because of the number of programs we have now. Will hire development director in the new year.

- We have identified the need for a full-time HR person. This would allow for full and proper management of HR resources and the ability to provide improved staff development and training. We also are planning to hire a part-time administrative assistant to help all administrative staff with support functions, thus improving the efficiency and time usage. The other portion of this person would support program services.

- We will be exploring the consolidation of custodial and maintenance services over the course of the next year. We have found that quality staff cannot be hired and retained when each program independently procures the service. Also, with a number of owned and leased facilities, it appears to be more cost effective to provide this service "in-house" versus placing service calls for all our maintenance needs.

- Will further consolidate grantwriting function.

- Consolidate bookkeeping under one individual.

- New program specialist, based on experience, will take over some training responsibilities freeing up more time for Human Resources.

- Exploring possible changes in Human Resource function.

Considered and Rejected

Two agencies reported considering and rejecting specific internal administrative efficiencies. CGR did not explore what those efficiencies were and why they were rejected.

Agency Advice

Some of the advice provided by survey respondents was specific to internal efficiencies:

- I would also suggest that agencies look first within their organization for opportunities to increase efficiency and effectiveness. Few agencies have single programs or funding sources. As a result, over time, administrative and support services may have been added tied to program development. And there may be many good opportunities for sharing administrative and support services throughout an entire organization, crossing various programs.

- Administrative efficiencies are often the first to get implemented. Those staff members are the first to be reduced instead of program people—where possible. This causes problems in providing sufficient supervision or secretarial backup. This may then cause compliance problems [with reporting requirements to funders] to emerge.

- Reorganizing administrative support staff may make more efficient use of present staff members. But we need to be careful that reorganizing staffing in *programs* doesn't increase direct service time by reducing supervisory and planning time.

E. Outsourcing/Contracting Out Specific Services

Outsourcing and contracting out include the hiring of a service company or shared services administrative support organization to handle a variety of services necessary to the business of the agency. As discussed in the previous section, these services may include such things as payroll, benefits management, bookkeeping/accounting, human resources, computer support, training, grant writing, fund raising, and facilities maintenance and custodial services. Of the agencies responding, as shown in Appendix C, seven have not considered outsourcing or contracting out services, while another seven have considered and rejected the option. *Nine have some type of outsourcing under consideration. Over 60% the responding agencies (31) are already outsourcing or contracting out one or more specific services.*

As discussed in previous Section D, Facilities Maintenance is the most popular area for outsourcing, with 30 of the responding agencies outsourcing this support function, including agencies that have facilities maintenance included in their rent. Payroll is another popular outsourcing opportunity, with 23 agencies reportedly contracting out all or part of that function. Security services are outsourced by 21 agencies, including those which have the service included in their rent. Other areas of outsourcing most often mentioned by several agencies included financial services (7), human resources/personnel (9), benefits management (7), staff development (8), computer support (at least 8), public relations (6), and fund-raising/grantwriting (6).

Variations by Different Agency Breakdowns

The matrices in the second column of the two tables in Appendix C provide more details on which types of agencies have implemented or are considering the outsourcing option. Little more will be said here about those outsourcing summaries in the Appendix, given the detailed discussion of specific outsourcing opportunities in the previous section. But in general it is worth noting that in almost all the breakdowns of agency characteristics and agency/program type, half or more of the agencies report outsourcing some (often more than one) administrative function.

To the extent that agencies are less willing to consider outsourcing, or have previously considered such options and rejected them, they are more likely to be among the smaller, non-multiple-site agencies. Other exceptions to the high rate of outsourcing include: Criminal Justice and Legal Services agencies (only one out of three report outsourcing) and Multi-Service agencies (three out of eight outsource).

Recent Changes

Recent changes noted in the survey were most often in the area of outsourcing MIS (computer support) services. Contractors offered quick implementation and provided expertise that was not available in-house:

- MIS outsourcing: relatively quick implementation, attained expertise in something that would have serious consequences if it was not done correctly by internal staff.
- Installed new computer systems for business services, payroll and client data base. Need to continue to expand and refine this system.
- New HRIS system requiring more time/focus/capital than anticipated.
- New contract for Information Technology has resulted in improved technical support to staff and addressing a number of needs that have been unmet. Actual expenditures have increased along with benefits.
- Our fund raising and PR positions are now being outsourced to consultants.

Two agencies' recent changes included bringing a formerly outsourced service back in-house:

- The cost of outsourcing maintenance was extremely expensive. By hiring our own staff we've been able to save about half the cost.
- A couple years ago we chose to bring our payroll service in-house. After a 3-year payback of our original investment in software, this is now saving us about $4,000

per year, compared to when we used to contract for this service.

Under Consideration

A variety of outsourced services are under consideration by some agencies. The items under consideration include:

- Possible cafeteria plan managed by an outside company to equalize employee benefits and stabilize costs.

- Considering outsourcing: facilities management, information technology and more training. We hope to gain a higher level of expertise than what currently exists on staff.

- We are contemplating some changes to our cleaning/janitorial and particularly maintenance functions. The upkeep of six facilities requires a significant time investment and we want to put all the resources currently being used together to see what type of maintenance/cleaning outsourcing possibilities might exist.

- Facilities Management for office location will be evaluated for outstanding services. The agency will look for thoroughness of services, level of delivery and technical expertise.

- We are thinking about outsourcing/expanding our personnel function. Right now, we have no formal Personnel Department or high level personnel staff person. We have been expanding the role of the staff person who performs the payroll function. We are considering doing an RFP to outsource some or all the personnel functions of the agency. Please note: because we have no personnel staff now, this outsourcing will not result in immediate savings but an increase in spending, which will hopefully improve personnel services and lead to other cost effective improvements in the future. We are trying to figure out if it will be more cost effective to create the position in-house or outsource it.

- We are considering hiring a consultant to help us completely revamp our information systems to help us be more efficient and able to track outcomes better.

Considered and Rejected

Seven of the responding agencies reported that they had considered and rejected the outsourcing option. The primary reason given for rejecting this option was the cost. Several agencies reported that they had carefully researched outsourcing payroll functions, accounting functions, or human resources. Each found that it was cheaper to do that function in-house. Several reasons were given for this cost savings. In one instance, the function took only a couple of days each week, leaving the person assigned free to take on other duties. In another, scheduling in the agency was so complicated that the agency still would need a person on staff to track and check hours worked to report to the contractor. It made more sense just to have that person do the payroll function in-house. Another consideration noted was that many of the contractors do not have the specialized knowledge necessary to understand the needs/peculiarities of not-for-profits. By the time that a member of the agency staff (in many agencies the CEO, director, or other high-ranking staff) spends the time and effort to explain the agency to and oversee the work of the contractor, it is perceived to be simpler and cheaper to hire someone who will become familiar with the workings of the agency. Even when factoring in the cost of computer hardware and software to do these functions, these agencies were still convinced it was more cost effective to keep the function in-house.

There is very little national literature available on outsourcing. What we found talks more about outsourcing in terms of manufacturing, but does refer to a problem alluded to above: "the contractor may not understand the uniqueness of my organization." The article noted that the reason for this is that the outsourcing company underestimates the time and attention required to manage the relationship. If the expectation exists that one can contract for a service and then sit back and do little, then one is bound to be disappointed in the service received.

Agency Advice

Although many agencies are outsourcing or contracting out certain work successfully, it is due to careful planning and asking the right questions, as the following advice notes.

- Accountability is a challenge. The funding agency has accountability to the originating funder. [Example: Agency #1 receives money from a funder and uses that money to contract with Agency #2 to provide the service or program. Agency #1 is accountable to the funder for the use of the money, despite any problems that might arise with Agency #2's provision of the program.] Frustrations occur when expectations are not being met and the funding agency has no control over the staff of the funded agency. Much administrative time and effort on behalf of both agencies can be needed to keep abreast of such issues. When the funding agency attempts to modify or discontinue the subcontract due either to lack of accountability, limited funds, or changing programmatic needs, it damages the working relationship between the two agencies.

- We had outsourced payroll, brought it in-house and then recently determined to outsource it again. The decision to return to outsourcing was made due to the amount of staff and number of equipment upgrades required to manage in-house payroll. We still view outsourcing as a management option whenever a project needs to be accomplished.

- There are a number of issues to consider in outsourcing and contracting for services. These include an assessment of the quality of services provided by the vendor and the cost. Can the service be done cheaper and at a higher quality? What will be the continuity of service delivery by an external provider? What is the comfort level with potential conflicts of interest (i.e. multiple clients, priority of your work) and confidentiality when working with an external provider? What is the competence level of the external provider? Are they the best service provider?

- Another issue to consider is timeliness. Can the external provider do the job faster and consistently on time? Will contracting out add to overhead costs? What control will the organization have over the scheduling priority of the work to be done and the ultimate responsibility and liability for the work provided?

- Contracting out for services does not necessarily ensure that the services provided are of a higher quality or at a lower cost or that there is continuity in the actual person providing the service. As a result, there is the cost of your time to keep re-educating and orienting new external service providers. There can be conflicts of interest and breaches of confidentiality. The competence of the service provider may not be or remain at a high level. The agency may assume unanticipated liability recognizing that they are still responsible but have reduced their control over the services provided.

- We have found many opportunities where you can successfully subcontract or outsource services in a cost-effective way. The criteria that we have used to evaluate include: the specialized expertise needed, the frequency and duration of the service, the initial and long term cost, the timeliness of the service and the liability exposure. One area that often can be overlooked in considering contracting is the cost of time and resources to continually monitor performance by external vendors and regularly evaluate the comparative cost/benefit with other vendors. We have found many times that the quality and cost of services does not remain stable due to: mergers, business failures, high turnover of personnel, greater emphasis on sales versus service, cost increases and other factors which affect your satisfaction and relationship with the external service provider. [Despite the negative comments on dealing with service providers, this agency seems to believe that outsourcing is an overall positive experience.]

- Considered and rejected outsourcing management information functions to a larger organization. We sought one-time grant money in lieu of incurring ongoing annual contract costs.

- We are able to bring in additional dollars to our agency by outsourcing the services of our own finance and administrative departments.

F. Joint Purchasing of Various Goods and Services

Joint purchasing is defined as two or more agencies, programs, or program sites joining together to purchase goods and services. This usually results in lower costs because of the ability to purchase goods or services in bulk. Seventeen of the agencies responding (just under a third) have not considered joint purchasing and six have considered and rejected it. Eleven are considering joint purchasing and just over 35% (20) of the responding agencies have implemented some form of joint purchasing. Only a few agencies specified what types of products or services were purchased in this manner. Some agencies noted they use group purchasing power for copy paper and other materials, or for training sessions for staff and board members. More specific comments included:

- Tremendous 20% plus savings on group purchase of insurances; increased emphasis on risk management techniques/compliance. Unanticipated political struggle with existing suppliers.

- Telecommunications purchases, 33% savings with group purchase of local and long distance service. Initial supplier problems with long distance carrier caused diminished savings due to increased staff attention on problem, but resolution has been made with switch to new carrier. Collaboration creates centralized attention by one entity, eliminating excess staff time used to figure out complex offerings/changes in telecommunications industry.

Unanticipated problems with existing suppliers can sometimes offset early savings from joint purchasing of certain services.

Some of those unanticipated problems with suppliers can include: mergers, business failures, high turnover of personnel, greater emphasis on sales versus service, and unanticipated cost increases. However, once the problems are settled, it appears that the savings can be sizable.

Variations by Different Agency Breakdowns

As indicated in the third column of the two tables in Appendix C, *it generally appears that the larger the agency, the more likely that it will have implemented some form of joint purchasing across its programs and/or sites.* Smaller agencies are typically less likely to have seriously considered such options. The following broad types of agencies, by agency/ program type, have been most likely to implement joint purchasing initiatives: Health Care, larger Mental Health Care and Counseling agencies, Substance Abuse, and large Educational agencies, perhaps due in part to their ability to access state purchasing contracts for educational institutions. Agencies categorized as Organization/Community Services, Basic Subsistence and Criminal Justice/Legal Services have been less active in implementing joint purchasing. It may be that the availability of the means for joint purchasing is the most significant factor (i.e., enough programs and/or sites and the centralized staff to handle purchasing coordination).

Recent Changes

None of the responding agencies noted recent changes in purchasing arrangements.

Under Consideration

Twenty percent of the responding agencies have joint purchasing under consideration. Those agencies range across all the descriptive administrative information subcategories. In terms of agency/program type, most types of agencies have at least some proposals under consideration. None of the responding agencies provided comments regarding what they have under consideration.

Considered and Rejected

Only six agencies reported considering and rejecting joint purchasing. There were two primary reasons given for rejecting this option. One agency reported that they just didn't know how to tap into a joint purchasing arrangement. They could not identify any such arrangement in the area and didn't know where to turn for assistance. For another agency, investigation of joint purchasing with other local agencies led to rejection on the basis of cost (could not get exactly what they needed for the price) and because there was no delivery service available.

Agency Advice

Two pieces of advice were offered that apply specifically to joint purchasing:

- Check out whether you are or can be considered as a part of an organization that can qualify for joint purchasing under State contracts (for example, educational institutions).
- Agencies can often jointly purchase training sessions, a one-time commitment that can be a positive experience for all involved and reduce training costs.

G. Informally Sharing Program or Administrative Staff Across Agencies

CGR defines "informal sharing" as just that, informal. It is not contracted, or necessarily formally planned. It just happens. Although no agencies explained their view of what constituted "informal sharing," CGR notes that many of the agencies that have implemented this efficiency are the same providers that have implemented either some form of co-location or collaboration. In the co-location or collaborative setting, such informal sharing happens without having a specific "informal sharing efficiency" agenda in place. In these settings, one agency's receptionist may cover while another agency's receptionist is out to lunch. One agency's counselor may meet briefly with a client of the other agency if no one else is available to help. This may not constitute "services" to the client, but the client perceives his/her immediate need as being addressed. In collaborative settings, case management staff may routinely contact and share case information with staff members in other agencies. It may also happen in larger settings where employees of similar agencies informally share experiences, problems and solutions during meetings or trainings. One agency reported doing such informal sharing with its sister agencies throughout the state in work groups, committees, joint trainings and joint reporting. Another noted sharing in planning, staff training and grant writing with other similar agencies.

Of the agencies responding, 21 (39%) have not considered informal sharing, while an identical number have implemented some form of informal sharing across agencies. Three agencies have considered informal sharing and rejected it, and nine have it under consideration.

Variations by Different Agency Breakdowns

As reflected in the matrices in column 4 of Appendix C, although all agencies across the size spectrum have implemented some form of informal sharing of program or administrative staff across agencies, it is clear from our comparisons that *the larger the agency, the more likely it is to participate in informal sharing. This is especially true of agencies with a large number of program offerings and of agencies with a large number of sites. Those agencies were also more likely to be involved in co-location and collaboration,* both of which encourage both formal and informal sharing of staff. When reviewing agency program types, again agencies across the spectrum are implementing informal sharing. The main exception is Criminal Justice and Legal Services agencies, which reported no implementation of informal sharing. It appears that the larger Basic Subsistence agencies ($2 million and over), the larger Health Care agencies ($5 million or more), the larger Mental Health agencies ($5 million or more) and the Substance Abuse agencies were more likely to share informally. On the other hand, the least likely to consider such informal sharing have historically been the relatively smaller agencies.

Recent Changes

None of the responding agencies detailed recent changes in this area.

Under Consideration

None of the responding agencies detailed any consideration of informal sharing of program or administrative staff across agencies.

Considered and Rejected

Three agencies considered and rejected this option. The agencies we spoke with did so in conjunction with considering and rejecting co-location. In one instance, the agency deals with much information that is confidential and can lead to conflicts of interest if this information is shared with another similar agency. Within this agency type, one agency may represent parents while another represents the children, or may represent opposing spouses. Although informal sharing of staff may be cost effective for the agencies, the possibility of creating a conflict of interest that will harm the client outweighs any monetary consideration. In a second instance, the co-location did not go forward because of concerns with conflicts between the missions of the agencies involved.

Agency Advice

Although more informal sharing is probably being done through co-location and collaboration than was reported here, the advice received is mixed:

- Sharing of program staff across agencies can, if you're not careful, be a budget burden. Many times there is no funding for these programs but there may be opportunities for increasing referrals into other agency programs. You can't afford to do it and you can't afford not to do it.

H. Formal Consolidation of Administrative Functions Between Agencies

An agency seeking better bookkeeping/accounting services looks for a similar agency that has an excellent financial services department and contracts for those services. In a collaborative program, one agency takes on the role of lead agency and does the program administration for all agencies involved. Both of these are examples of formal consolidations of administrative (backroom) functions. Again, these formal consolidations seem to happen more often in agencies that are co-located or collaborating. These circumstances make formal consolidation of some functions more natural. For example, collaborating agencies may combine resources to hire a secretary for the collaborative. Or program staff may formally work together to share their experience and expertise in coordinating a new program across agencies. Of those agencies responding, 27 (almost half) have not considered formal consolidation and six have considered and rejected this option. Eleven report that they have such options under consideration, while 12 report that they have implemented formal consolidation (22%).

Variations by Different Agency Breakdowns

As seen in column 5 of Appendix C, the general trend in this area is that *the smaller the agency, the less likely that it has considered formal consolidation of administrative functions between agencies.* Although the agencies that have implemented this option are spread across the spectrum in terms of budget size, number of staff, number of sites, etc., it appears that agencies with larger budgets, more administrative staff, and more program sites are the most likely to have implemented formal consolidation of administrative functions. On the other hand, Basic Subsistence agencies have not implemented any formal consolidations, although five such agencies (31%) have this option under consideration. Seven Basic Subsistence agencies have not considered this option at all in the past. Organization/Community Services agencies have not implemented, nor are they considering, formal consolidation. Five of the eight agencies have not considered it at all, while three are considering this option. Large Mental Health Care and Counseling agencies were more likely to implement this option, with four (50%) of the larger ($5 million and more) agencies having done so. At the same time, the smaller agencies in the Mental Health category (less than $5 million) had not considered this option at all. In the Individual and Family Life area (the area with the largest number of agencies—24) 46% of the agencies had not considered this option and only 21% had implemented it.

Recent Changes

None of the responding agencies detailed recent changes in this area.

Under Consideration

None of the responding agencies detailed consolidations between agencies that are under consideration.

Considered and Rejected

Six agencies said they had considered and rejected formal consolidation of administrative services. In one instance, a larger agency wanted to be an administrative resource to a smaller agency. Each agency served a different clientele. Although a small percentage of the clientele of each agency overlapped, there were significant differences that both boards questioned in terms of agency mission and clarity of purpose as seen by the larger community. Neither agency board wanted its agency's mission diluted or misunderstood by the public. Although this may have been a cost effective move, concerns over public perception were deemed more important that the financial considerations.

A second agency originally considered and rejected the formal sharing of administrative services, in this case financial services, because the board was concerned that the agency would lose too much control over the finances of the agency. However, discussions of that option are now taking place again, and the agency may go forward with this option in the future.

Agency Advice

Only one piece of advice was received regarding this option.

- This option was considered and rejected because of issues around the need for identity and control and a lack of understanding about the costs of operating.

I. Use of Shared Services/Administrative Support Services

When similar agencies provide their own separate administrative services, this can sometimes siphon valuable dollars from services. Sometimes, when those agencies join together to establish and utilize an administrative support services or administrative support organization, they can take advantage of economies of scale to obtain administrative services at a lower cost and shift more money into direct core services, or obtain important support services not otherwise available to the agency, albeit sometimes at added costs justified by the new or improved services. Twenty-nine (53%) of the responding agencies report that they have not considered using shared services, and one agency said it has considered and rejected this option. Seven agencies (13%) are considering it, and 19 (35%) report that they have implemented some form of shared services or administrative support services.

Variations by Different Agency Breakdowns

The general pattern in this area is that *smaller agencies are more likely not to have considered the use of shared services,* while larger agencies are more likely to have implemented this option, as shown in column 6 of Appendix C. Organization/Community Services (both subdivisions) and Mental Health ($5 million or more) agencies were evenly split between not considering and implementing use of shared services. Multi-Service agencies, the small number of Criminal Justice/Legal agencies, and Education and Individual and Family Life agencies are more likely not to have considered the shared services option. On the other hand, Basic Subsistence agencies and the smaller Substance Abuse agencies (less than $2 million) have been relatively likely to engage in shared services, compared to other types of agencies.

Recent Changes

Participating agencies noted some of the recent changes made possible by their participation in an Administrative Support Services approach to being more efficient:

- Savings on group purchase of insurances.
- Long distance phone savings
- Centralized recruiting operation has been started to create flow of qualified job applicants in light of tight labor market.
- MIS outsourcing; relatively quick implementation, attained expertise in something that would have serious consequences if it was not done correctly by internal staff.
- Agency is one of six statewide affiliates to participate in 5-yr. Demonstration project to design and experiment with new approaches to the planning and delivery of services to people with disabilities. Center-piece of project is regulatory reform and cost efficiency.

There were also some problems to be faced in changing to the use of such shared services:

- Politics of existing suppliers of services disrupting change. [See a further discussion of "politics" in the Other Obstacles section at the end of this report.]
- Staff/senior management not communicating changes effectively, creating confusion.
- New HRIS system requiring more time/focus/capital than anticipated.

Under Consideration

The agencies contemplate further changes in their use of such support services in the near future:

- Will continue to look to [support services] to further develop MSO services, product lines to address unmet needs regarding shared services: HR, facilities management, risk management, etc.

- Will further consolidate grantwriting function.
- Moving Quality Assurance more in the direction of corporate compliance function.
- Intent to further utilize [shared services] in areas of HR, facilities management, etc.
- We are contemplating the addition of outsourced human resources help from [support services] next year.

Considered and Rejected

Only one agency considered and rejected this option. We did not speak with anyone from that agency.

Agency Advice

Although this area was implemented by just over one-third of the responding agencies, no specific advice was offered.

J. Co-location of Services

Co-location at its most basic is defined as two or more agencies sharing the same physical space. As part of the ROI concept, it is also defined as having two or more complementary programs or services sharing space so as to provide easier access and choice for clients, and ensure closer working relationships between agencies working with the same client base. Almost half of the responding agencies (25) have implemented some form of co-location of services. Ten are considering co-location of services. Thirteen of the agencies have not considered co-location and six have considered and rejected it as an option. Most agencies gave few details regarding their experience with co-location. One comment was received from an agency that considered co-locating, but rejected the idea by default:

- My agency needed to move and was interested in co-locating with other agencies. I called many funders, a myriad of local government officials, and other umbrella organizations who all said they could not help us. I suggest the ROI group or United Way set up a separate group that looks to help agencies to co-locate or have a list of agencies needing to move or wanting to co-locate. We are moving to our own location with no shared services or integration of administrative functions because I did not know how to do otherwise.

Variations by Different Agency Breakdowns

As shown in column 7 of Appendix C, co-location appears to be one area where having a larger administrative staff, a larger number of sites, and a larger number of programs makes it more likely that an agency will co-locate with other agencies. Mental Health ($5 million or more) and Substance Abuse (less than $2 million) agencies are those most likely to have co-located. Generally agencies in all categories across the board are co-locating, with Multi-Service agencies, Health Care, and Education all having an overall 50% or higher rate of implementing co-location. By contrast, half or more of the smaller Basic Subsistence agencies and the Organization/Community Services organizations have not considered co-locating services. Interestingly, agencies with the lowest occupancy costs per square foot are typically the least likely to have considered co-location.

Recent Changes

None of the responding agencies detailed recent changes in this area.

Under Consideration

None of the responding agencies detailed any co-locations that are under consideration.

Considered and Rejected

Six agencies considered and rejected co-location of services. These rejections happened for a variety of reasons. One agency tried to co-locate in the past and had difficulty finding another agency that had the same client base. This particular agency serves a niche clientele that doesn't necessarily use the services of other agencies. One agency has had offers to co-locate, but the locations offered were too far away from the location that best serves its clientele. One agency specifically created space to co-locate health care along with its services, then learned that state regulations make it difficult and expensive for health care providers to co-locate into that space.

Agencies also noted that it is very difficult to connect with other agencies looking to co-locate because there is no broker or clearinghouse for that information. Several agencies mentioned the difficulties of finding other agencies that are ready to move at the same time. Most agencies look to move when their leases run out. For an agency that is still in the middle of a lease, the extra costs involved with buying out the lease can be prohibitive. *It was suggested that someone take on the task of acting as a clearinghouse and information center for co-location, keeping track of agencies that are interested so that the pre-planning regarding lease expiration and space usage can begin before a particular agency must move.*

Agency Advice

Co-location is one of the more popular options for agency efficiency. Yet the advice offered by the agencies shows that it can be difficult to accomplish, even though successful in the end

- The politics of this issue often seems insurmountable. We have made offers of such relationships at least twice and found that the issues that arose as barriers were images of the agencies, autonomy, control, convenience, and getting the numerous individuals on both boards to agree.

- In an attempt to make services more convenient to clients by providing satellite locations, we found that State regulations make it prohibitive. [Often state agencies regulate the type or size of facility where services can be offered, with no flexibility to try different service formats or locations.]

- Since both agencies need funds to cover administrative costs (supervision, bookkeeping, reporting, etc.), there may end up being less money available for services than there would be if only one agency provided the services, though it should be possible to save dollars through the sharing of costs in the long run.

- Sharing services or locations usually requires sustained (additional) time to meet with partners and work out specifics. Thus, anytime two or more partners work together, they may find greater effectiveness and efficiencies, but capacities may not always increase—even if quality services result.

- We jointly purchased space and co-located staff with partners in welfare-to-work consortium.

- While co-location in schools allows for better access to students, other issues such as the new Regents requirements have decreased access, as the school day is quite full. Co-location does not guarantee access but does help.

K. Collaborative Efforts in Program/Service Delivery Across Agencies

Collaboration is two or more agencies coming together to provide programs or services. Agencies usually collaborate to provide programs because they are unable, either financially or because of lack of expertise or staff resources, to provide them alone. This is the most popular of the efficiency options we investigated, with a full 75% (41) of the responding agencies involved in at least one collaborative venture. Twenty-four percent (13) of the agencies are considering a collaborative, with most of those not participating in any collaboratives now. Two agencies are considering more collaboration. Only 7% (four) have not considered collaborating, and no agencies reported having considered and rejected the collaboration option.

Again, few comments were received in this area. However, a couple of agencies that reviewed recent collaborative efforts provided some reasons why collaboration was so important in their efforts to provide new services. The first noted that by collaborating it was able to meet an identified need without recreating the wheel. The cost to gain the expertise needed to develop this program alone would have been prohibitive, but by collaborating with an agency already having the expertise, the agency was able to provide more comprehensive services and the second agency was able to broaden its market reach. A second agency shared that each partner's strengths in different areas strengthens the collaborative, assures continuity of care and follow through for clients, and provides for administrative efficiencies benefiting each agency. At least one agency in the under-consideration group noted that it is in active discussions with similar agencies to determine how they might collaborate.

Variations by Different Agency Breakdowns

Although agencies in every administrative information category are collaborating in some way, the pattern again appears that the larger the agency, the more collaboration is being implemented, as indicated in column 8 of Appendix C. Although collaboration is happening across all agency program types, it again appears that it is being implemented most frequently by those agencies with higher budgets. While agencies in the lower level of each category implement at about a 50%-70% rate, those agencies in the top budget level implement at about an 80% to 100% rate. The exception to the generally high rates of implementation of collaborations is Health Care agencies (between $2 million and $5 million), which shows only two of the five agencies (40%) in this group collaborating

Recent Changes

None of the participating agencies provided information regarding any recent changes in this option area.

Under Consideration

Although 13 of the responding agencies noted that they had further collaborations under consideration, none offered details regarding those collaborations. Agencies may have felt that this is too sensitive an area to discuss if collaboration negotiations are ongoing.

Considered and Rejected

There were no agencies that considered and rejected this option.

Agency Advice

Being the most popular of the options presented, this area therefore generated the most advice:

- One Partner providing the Administrative services while all Partners are providing services frees up the collaborative effort to provide more direct services that would not be possible otherwise.

- We have found there needs to be dedicated resources to drive the change needed in collaborative activity. The management of collaborative activity by committee is very difficult to accomplish goal-oriented activity because nobody acts as a "champion" of the process. There also needs to be a willingness to change and realization of the competitive environment related to funding sources, clients and volunteer time.

- Our success in collaborative activity has come from the use of a very thorough business plan, complete with the following elements:

-Clearly defined goals and objectives.
-Talented and motivated staff.
-Capital to cover up-front expenses and contingencies involved in the difficult process of change.
-Ability to benchmark outcomes and publish results.
-Review process to refine services and develop new ones.

- Collaborative efforts are viewed with great enthusiasm in today's environment. However, coordination of information for billing can be nightmarish. Funders' requirements generally expect that one of the agencies be responsible for the administrative work. Obtaining all the required documentation from the various participants is staff intensive and time consuming. Also, fair distribution of all costs to that program may not occur. In order to obtain collaborative contracts, usually one consolidated budget must be submitted. All agencies involved do not necessarily account for overhead expenses the same way. Therefore, if one participant can put all of their administrative costs into a larger entity and submit very low overhead components into a budget and the second agency submits costs that are distributed across all programs, this becomes problematic for cost reimbursement.

- One overriding lesson is that collaboration is often more costly than operating alone. For example, when we place staff at school collaboratives, we lose fee income they could be generating in our clinic. We collaborate anyway because it makes us more accessible to our clients.

- Collaborative program/service delivery is largely dependent on common goals, outcomes and commitment, as well as clear expectations of all partners. Collaborations require more time in up front planning and program design. Monitoring the process of the partnership, the ability for the collaborative partners to be clear about expectations, and the ability to clarify problems and issues, address concerns, and celebrate success are all key to success.

- Collaboration is time consuming and often frustrating, with no additional funding support to cover changes in systems so agencies are working off the same page.

- Collaboration does not necessarily mean less work or consolidated administration.

- These partnerships have been most successful when the partner agencies were interested and receptive to collaboration and were willing to commit the time and energy necessary to make such programs successful. We have attempted to clarify roles and responsibilities as well as needs and organizational strengths at the outset of such partnerships. We then design a program tailored to address the needs within the structure of available resources and client preferences. When we are working with the clientele of another agency, the programs have been most successful when the agency staff work actively to make the initial contacts and recruitment efforts, since they are most familiar with the clients and most likely to have methods in place to reach them. We solicit information from clients regarding their preferences for time of group, topics for discussion, etc. so that the program is responsive to their needs, and therefore, they are more likely to participate. The partnerships that have been less successful were those in which the partner agency was not fully accepting of the program (e.g., scheduled conflicting programs, did not help recruit participants, changed the site or time without informing everyone involved), did not have the underlying organization necessary to make it successful, or the roles and responsibilities were unclear. Our approach to such collaborations has been designed to share strengths in staff expertise while broadening our ability to reach more families.

- A collaborative can grow and change as the needs of the clientele change. A collaborative cannot be all things, but can pick primary issues. No one agency can afford to do on its own all the things a collaborative can do.

- We are in many collaboratives. Their success often depends on the individual staff and their commitment to the project. Staff that are involved from the beginning in concept development through implementation are more committed. A lot of time must be provided for communications and interaction of all partners. I don't believe that Execs are as involved as they should be—perhaps twice a year a formal meeting to present accomplishments and challenges.

L. JOINT VENTURE

A joint venture happens when two or more nonprofits collaborate in a formal, legal manner to provide a program. The legal collaboration usually consists of forming a new subsidiary corporation, with the original corporations as members, which assumes the challenges and the risks of providing the new program. This is distinct from the more formal merger, because both original corporations remain as separate entities. Of those agencies responding, 38% (21) have not considered a joint venture and 9% (5) have considered and rejected it. Twenty-four percent (13) have joint ventures under consideration, while 29% (16) have implemented a joint venture.

Variations by Different Agency Breakdowns

The 16 agencies that have implemented joint ventures are spread across all levels of the administrative functions categories. There does not seem to be a clear pattern as to what types of agencies are more likely to have implemented this option, although those slightly more likely to implement float through the mid to upper levels in each category, rather than in the lower levels. Those agencies that have not considered a joint venture are also spread across all levels. Those with a joint venture under consideration show a slightly clearer pattern of agencies, with those agencies clustered in the lower one or two levels of each category. *In effect, larger agencies have been more likely to engage in joint ventures, and smaller agencies are beginning to consider more of the possibilities for the future.* All three of the agencies in the Criminal Justice and Legal Services category have not considered joint ventures. Fifty percent or more of the agencies in the Education, Individual and Family Life, and Multi-Services categories have not considered joint ventures. The Substance Abuse ($2 million or more) category showed the highest rate of joint ventures, with three of the five agencies implementing joint ventures, and one having it under consideration. In the Health Care ($5 million or more) area, half of the agencies have implemented this option.

Recent Changes

None of the responding agencies provided any information regarding recent changes in this area.

Under Consideration

None of the responding agencies provided any information regarding the joint ventures they have under consideration. Again, this may be a sensitive area if joint venture negotiations are ongoing.

Considered and Rejected

Only five agencies considered and rejected this option. CGR received no substantive comments regarding this area.

Agency Advice

Although joint ventures were implemented by almost 30% of our responding agencies, few comments were received in this area.

- Open communication and addressing concerns/issues in a forthright and timely manner were crucial to success.
- This has been beneficial. However, it does still require an investment of our time and we sometimes feel it takes too long to get things done.
- I have worked in many different kinds of collaborative programming, which I believe is a logical but difficult way to provide services. The most difficult, but rewarding, collaborative I have been involved with was the creation of a legal joint venture. We were able to provide more services and raise more funding by coming together than by each setting up our own intake and care management system. We were fierce competitors before we began this journey, which created a great deal of problems. There have been and continue to be challenges, but we have been able to tackle many more issues working together than competing.

M. MERGER OR AFFILIATION

Merger is the term for the full coming together of two previously separate corporations. There are at least two formats through which this can happen. The first entails the closing of one nonprofit and leaving its assets (and any liabilities) to the other nonprofit. The second format entails the closing (or dissolving) of both corporations and moving their assets and liabilities into a new, third corporation. The first format is usually chosen, because the second creates extra work in terms of application for a new IRS tax exemption for the new nonprofit corporation. In contrast, affiliation is often not visible to the public or to clients. Each separate agency will continue to exist; however, in the background these agencies will have consolidated most, if not all, of their administrative operations. Of our responding agencies, 35% (19) have not considered merger and 16% (9) have considered and rejected this option. Thirty-six percent of the agencies (20) have implemented a merger and another 16% (9) reported having one under consideration.

Variations by Different Agency Breakdowns

Agencies that have not considered mergers or other affiliations appear to be clustered in the lower one or two levels of the administrative information subcategories. Smaller agencies may feel it is more likely that they will lose their identify or special mission if they affiliate with another agency. Agencies that have implemented types of affiliations are represented more in the mid to upper levels of those subcategories (i.e., in the larger size organizations). This may represent the fact that as agencies merge the surviving entity becomes larger and may move an agency into a higher level in each sort area. *Therefore, these subcategories may in part be a function of mergers, rather than presenting a clear picture of who is choosing to merge.* The picture becomes slightly clearer when looking at which types of agencies are choosing to implement mergers. Two of the three Criminal Justice and Legal Services agencies have implemented mergers. Mergers have also been implemented by 5 out of 7 Individual and Family Life ($5 million or more) agencies, five out of eight Mental Health ($5 million or more) agencies, and five out of nine Substance Abuse agencies. In the Multi-Services category, 5 of the eight agencies have implemented mergers, while two have not considered it and two have mergers under consideration. Four Substance Abuse agencies also report having mergers under consideration. In the Health Care (between $2 million and $5 million) category, three of the five agencies have not considered merger and two of the five have considered and rejected this option. In addition, half or more of the Education advocacy agencies and of the smaller Individual and Family Life subcategories have not considered affiliations.

Recent Changes

None of the responding agencies detailed any recent changes in this area.

Under Consideration

None of the responding agencies provided any information regarding any mergers they have under consideration. Again, this may be a sensitive area if merger negotiations are ongoing.

Considered and Rejected

In our review of the national literature on mergers and affiliations for this report, we found much agreement on the factors that go into a successful merger. We will review those factors before taking a closer look at why mergers were considered and rejected by some local agencies.

A variety of motivating factors cause agencies to consider merger. They may include economic issues, opportunities for new services, to better serve the community, or to provide broader leadership. Thomas McLaughlin, in his book, *Nonprofit Mergers & Alliances: A Strategic Planning Guide,*[4] offers some questions that agencies should be asking themselves. If an agency can answer yes to several of the following questions, it should be considering merger:

- Does your organization offer only a piece of a larger service delivery pie?
- Are your services similar to those of another group in your area or do you serve a related population?
- Is your long-term funding in jeopardy?
- Is it necessary to curtail or postpone necessary expenditures due to dips in your cash flow?
- Are you struggling to recruit volunteers and board members?
- Are your volunteers, board members and staff burning out?
- Is the Executive Director/C.E.O. position vacant or soon to be vacant?

[4] McLaughlin, Thomas A., Nonprofit Mergers & Alliances: A Strategic Planning Guide, cited in Ferronato, Sherry. "Nonprofit Mergers: The Perils and the Possibilities." Charity Village News Week, 1 February 1999. http://www.charityvillage.com/archive/acov/acov99/acov9904.html..

- Are staff required to be Jack's/Jane's of all trades, but able to be masters of none?
- Are your image and profile suffering due to a scandal or shift in community priorities?
- Does confusion exist in the community regarding what your organization does?
- Is the community uncertain as to how your services differ from those of similar organizations?
- Are your service users asking for something that you do not or cannot currently provide?
- Is an inadequate infrastructure or lack of expertise preventing your organization from growing?
- Ultimately, would services to your community be improved by combining with another organization?

Once an agency has decided to consider a merger, there are many factors that can make the process successful or unsuccessful.

Most agencies considering mergers are looking for immediate, quantifiable results, that is, saving money. Unfortunately, it costs money to merge. There are a variety of one-time costs that may include consulting fees, severance packages, printing costs, moving costs, systems integration costs, and merger celebrations, announcements, and related events. There may be recurring costs that could include salary raises to equalize pay and growth-related costs such as new programs and/or new space. On the other hand, savings may result from economies of scale and may include salary and benefits for one director instead of two, one yearly audit instead of two, possible rent reductions, reduced insurance costs, and reduced administrative costs. In other words, cost savings *may be* a long-term result of a merger. The national literature is in agreement that financial savings should not be the sole basis for a merger, and that mergers based *only* on cost cutting may not work out well for the parties involved.

It appears that the most appropriate reason for a merger is mission. If a proposed merger will strengthen or better fulfill both agencies' missions, then that merger is likely to be successful. Mission must not be defined as agency identity, however. According to the literature, when merger discussions become centered on identity or autonomy, rather than mission, those discussions are likely to fail. Underlying discussions of identity and autonomy are basic issues of distrust, ownership, control, fear, and self-interest. If those issues can be openly addressed, while keeping the focus on the mission of the agencies, the merger is more likely to be successful and result in a stronger agency.

The literature suggests that mergers should not be forced by third party pressure. Although agencies may come to the table as a result of such pressure, the motivation is less likely to be there to make the merger successful. Mandating of mergers should not happen, but third parties can take a role in encouraging and supporting mergers when those mergers serve the missions of the agencies involved and the needs of the community.

Nine responding agencies in our local survey reported that they had considered and rejected merger or affiliation. It appears from our conversations that the primary reason for this was a conflict of mission between the agencies considering merger. In each case, the agencies involved had very specific missions, and one or both agencies would have had to make changes in their primary mission for the merger to be successful. Each agency had a clear understanding of what its mission was, and a belief that its mission was important to the community it served. Each agency also believed that changing or watering down its mission would harm its services to its clientele and the community. Given what we learned from the national literature, it appears appropriate that the partners backed away from merger in these cases. In several of these cases, the agencies have gone on to successful affiliations with other agencies. At least one agency continues to look at options other than a merger.

Agency Advice

Merger has been one of the more controversial options for agencies, but from the advice received from agency executives, it appears that it can be successful when planned well.

- I recommend that, prior to entering into any prospective merger or affiliation, the Boards of both agencies put down in writing their expectations and concurrence with the process and results to be achieved. We recently expended a significant amount of time and resources on an affiliation we believed was desired and in the best interest of both parties. Definitions for the terms "Merger," "Affiliation," and "Collaboration" must be required on the front end of discussions so that parties know up front what the ramifications are with each.

- The 'parent' agency must have its Vision, Mission and Values clearly articulated, written down and shared within the parent agency before extending to other potential affiliate/merger agencies.

- The 'parent' agency must have its core services (quality assurance, human resources and accounting) clearly defined and discuss the boundaries and expectations of each core service.

- The 'parent' agency must be very aware of, and plan for, additional staff resources that will be required to assist the affiliate/merger agency to be 'folded into' the parent agency.

- The expected outcomes of both parties must be defined in writing, shared with key staff, and a plan for monitoring the outcomes must be followed closely.

- All Board members (both agencies) must be choosing the affiliation/merger, and have a clear understanding of the value of this venture.

- Both the 'parent' and affiliate/merger agency must understand that the road to comfort is a long one and takes hard, dedicated work to accomplish.

- Of critical importance is the role of the chief executive officer in the 'parent' agency and his/her commitment to cooperation and quality.

- Of the two options discussed, we have determined that initially an affiliation is easier, as the 'affiliate' is giving up less in terms of its corporate structure, executive director, etc. In the long run, a merger is both simpler and cleaner, and brings fewer complications. With a merger, the commitment is clear, the organizational structure is determined and then it is the ongoing process of 'living together.'

- The merger was difficult because we underestimated the person hours required for the amount of work needed to complete the merger successfully. Staff volunteered many hours along with volunteers to make this merger happen. A successful and smooth transition is dependent on sufficient resources and the condition of corporate records of the entity that is dissolving.

- I have talked to numerous people about the challenges of considering merger or consolidation. I have felt for a long time that my agency was too small to accomplish our mission both because of the number of clients and because of our size. It is highly inefficient to have as many administrative staff and even with this very high number I still have no one to perform personnel or the MIS function. I believe that Boards are often fearful of mergers and funders and community leaders are not playing a leadership role in encouraging us to merge.

N. What Is Not Happening

As a part of the survey, agencies were asked to indicate whether they were unable to carry out one or more of the support functions at this time, or whether they were not able to carry them out to the extent that they would like. Several areas surfaced as being particularly problematic to the 29 agencies that provided answers to this question:

- Human Resources/Personnel—At least eight agencies would like to increase the time spent on this function, or add another person to concentrate on this function.

- Information Systems—At least five agencies would like more money for the purchase of information technology, along with the time and assistance to fully understand and utilize the system.

- Program Evaluation/Measurement—Six agencies noted their inability to do the program evaluation that is necessary for their own development and to meet funder requirements.

Several agencies reported that they are currently handling these support functions, but that they are using a variety of strategies to do so, or are beginning to feel as if they are losing ground:

- There are occasions when [we are] unable to satisfy various needs with the support staff structure and expertise that is in place. In that event, we hire additional staff, secure contracted services, or enact staffing re-designs, depending upon whichever method is determined to be most effective.

- We are still able to carry out these functions although with increasing difficulty because of the increasingly complex reporting requirements of our funders.

- At times the agency has difficulty in responding to increasing demands from funders for program evaluation information. Currently, program evaluation is one of many functions that fall to the Assistant Executive Director. Would ideally like 10 staff hours a week dedicated to program evaluation.

- The agency is able to carry out the above support functions despite extremely limited administrative resources. [We are] seeking funding for additional administrative positions that other agencies of similar size have in order to expand fundraising and development activities, increase capacity to train and supervise volunteers, increase capacity to evaluate programs, and other activities that will enhance program services.

- Staffing resources are spread more thinly than we would like in both program and administrative operations.

When asked the follow-up question: What would need to happen to correct the situation?, seven agencies responded that more funding was needed. An additional seven referred to needing more staff, which is directly based on available funding. One agency requested, "Knowledge of competent, reliable, cost-effective vendors and organizations who have had success in doing things differently."

O. Wisdom to Share

Agency executives filling out the survey were asked to share what they had learned about these options based upon their experience. About half the responding agencies replied to this question, and the answers clearly showed their experience with making these decisions. Some of the advice provided was generic to all the option areas, such as:

- All these options require many meetings, numerous discussions, money to implement upfront with carrying costs. Benefits? Obviously decrease in expenses unless it's a specific function, such as HR or evaluation, which needs more attention, but due to small size of agency, has been done to the extent possible. It's a reality that in small agencies, staff wear many hats—this is both positive and negative. It can make for interesting days! [A small agency may do without staff members that specialize in areas such as Human Resources, program evaluation, and others. As that agency grows, however, it may find itself needing specialized staff members to handle these functions. Adding that specialized person that handles only one function to the staff can result in more efficient and improved handling of that function, but also results in increased administrative costs to the agency.]

- One thing that is helpful to any agency or business is to become crystal clear in your mission and purpose. It is an essential element in any strategic planning, restructuring or new business ventures.

- Need to ensure agency mission and priorities are key in decisions.

- I would certainly advise that other agencies consider and evaluate the cost and benefits of a variety of options aimed at increasing internal operating efficiencies in administrative and support areas as well as options for increasing the quality and effectiveness of services provided. A number of important factors are key to the successful implementation especially with external providers/partners. These include the similarities or differences in the culture, values and mission of the organizations, the leadership of the organizations, the existing and anticipated future relationship (e.g., partnership vs. a dominant/subservient relationship). Additional factors to consider are the motives for a change. Is it basic survival due to a financial crisis with one or more parties? Or is it building on strengths and looking at adding value and benefits from a synergy of assumptions and the impact on management time and responsibilities. Finally, there is a need for a careful analysis of the impact on clients, employees, and Board members.

- Non-profit leaders must focus more on vision related, longer term issues and change versus short term, control or identity issues. Although the change process in that regard can be difficult, threatening and very time consuming, the simple goal of better, more effective administrative support services that are more cost effective is attainable.

- These all have to be win/win to work.

- It is important that organizations have a clear role and understanding upfront in terms of collaboration and sharing of resources.

And there was one warning among the pieces of advice. Some agencies have already become more efficient and as a result have trimmed administrative staff. As a result, there are no further efficiencies to be made and no administrative staff to eliminate. Agencies in those circumstances may have no choice but to trim programs and services if their funding is further reduced. Two agencies noted:

- Over the past three years, there have been no inflationary adjustments in most of our government contracts. We have dealt with this by restructuring and downsizing administrative services. . . . However, this method of dealing with static revenue sources will soon result in a diminution of service available to those in need.

- We trimmed a bit administratively but are already stretched to the max. We now have to trim in programs and services.

That warning points out how important it is for agencies to share their experiences and expertise in becoming more efficient *without* cutting programs and services. The goal of ROI is to *minimize* administrative expenses to *maximize* the money available for programs and services.

P. Obstacles to Better Use of Agency Resources

Agencies that received the survey were asked to respond to a question regarding the various obstacles they face to making better use of agency resources (see Survey, Question 2(d), Appendix A). Among the 38 agencies responding to this question, 68% noted that regulatory and funder reporting requirements were the biggest obstacle to the better use of agency resources.

Reporting Requirements

Many of the responding agencies see the reporting requirements as burdensome, serving only to spread administrative staff thin in attempts to track all the necessary information and complete the required reports. All levels of funding are included here, from local United Way to the federal Medicaid program. The level of reporting required is often the same whether the amount of dollars received from that funder is large or small. The excessive level of detail and duplicative requirements across funders, along with the lack of consolidated and standardized formats, requires considerable time and effort on the part of agency staff members. The variety of comments included:

- The administrative burdens imposed by funders are heavy across the board and getting worse. All administrative staff are spread extremely thin.
- [Need] consolidated and standardized reporting formats--$.33 of every dollar spent is paper cost.
- We have to do more reporting for UW, which is less than 1% of budget.
- In addition, funders have an expectation of technological capacity but few provide resources toward technology/computers.

- Funding can be obtained to support specific programs, but don't support administrative or operating expenses.

- The greatest potential future administrative saving can come from reduced governmental and United Way reporting requirements.

- For both the United Way and state mental hygiene agencies (OMH, OASAS, OMRDD), the administrative and reporting requirements are significantly disproportionate to any use or benefit.

- For example, State Office of Mental Health has moved over the past five years from being the primary funding source to shifting the funding to Medicaid. With this shift, new Medicaid reporting and billing requirements have been added without decrease in historical reporting requirements from the previously state deficit funded programs.

- United Way has shifted from funding agencies to investing in specific programs aimed at producing specific outcomes. However, United Way requires the same if not more global agency wide reporting requirements well beyond the programs they are investing in.

- Both United Way and the state agencies require specific additional independent audit reports in addition to the agency-wide annual audit. These administrative and reporting requirements by funding agencies become unfunded mandates that add significantly to administrative cost without any proven utility or benefit.

- Each funder requires completely different formats and information regarding reports.

- We file over 30 pages of all numbers reports just for our organization. Then go on to do additional research for others. We actually had to leave United Way because reporting burden was not matched by dollars we received. Small organizations like ours have to do just as much reporting as the "big guys." It's an undue burden.

Funders all have different requirements (reporting, outcomes, budget year). Such inconsistency results in extra staff (unfunded), 2 audits, and duplicate efforts.

- State contracts should be extended to three years—reapplying each year is unnecessary and burdensome.

New outcome based funding is also adding a layer of program evaluation and follow-up on client outcomes that agencies say is not realistic:

- Funders (such as the United Way) are also turning to more program based funding and are demanding outcome-based measurements. There are frequently disagreements as to what constitutes valid outcome measurements, especially in the behavioral health arena.

- Finally, all of our major programs are regulated by State and federal regulators and licensing authorities. We are also accredited by the Council on Accreditation of Services for Families and Children. There was a time when the reports of these bodies were an acceptable substitute for United Way program evaluation. Since then, outcome-reporting requirements, especially those of United Way, have added a costly administrative burden.

- No help from any funder to identify outcome-based models, pay for evaluation research, or train staff.

- Also expectations regarding follow-up on client outcomes are not realistic within financial constraints.

- UW requirements need to be looked at; outcome measures don't really help define what we do in our program.

- There is not sufficient dollars to create the kind of technology-based system I need to provide better reports for tracking outcomes.

- Some desired outcomes formulated by United Way don't fit our agency. Some inflexibility to change—impacts our "success" in funders' eyes.

One agency expressed concerns about losing funding if they become more efficient:

- Reporting requirements increase annually. Various funders require different methods of handling overhead, different items that are considered to be overhead, or they do not allow spreading of any overhead. Therefore, the agency is required to prepare financial reports for the same program in several different ways. Although internal reports handle overhead, etc., in a standard way, and the result may show a deficit for a program. When later applying the funders' rules and thereby disallowing some expenses (such as depreciation), the program may show a surplus thus opening up the possibility of losing part of the funding.

- There is very little incentive (other than when budgeting) to run a program efficiently as any surplus will be subject to repayment to the funder.

Most funding also carries restrictions as to its use. It can be obtained to support specific programs, but can't be used to support the administrative costs of those programs. Categorical funding remains a problem as it allows little or no flexibility, especially when programs offer only slightly different services.

Regulatory Requirements

Regulatory requirements can also keep agencies from being as efficient as they would like. One agency noted that NYS Department of Health regulations "required that staff time and resources be applied directly to areas not directly improving resident care." Another agency noted that, "We are limited in our ability to decentralize services due to [OASAS] licensing restrictions." One agency mentioned that it must deal with "mandatory record keeping (Medicaid) that is neither consumer nor staff 'friendly' and restricts consumer-centered goal planning."

Technology Issues

Some agencies note that there is a clear expectation from funders that agencies are technologically competent and up-to-date, but few provide the resources necessary. This leads to the second most mentioned item in response to this question: the lack of funds for and knowledge about computer technology. Forty-two percent of the responding agencies said that they do not have staff with the expertise to make wise choices regarding computer systems. Therefore, these agencies purchase things piecemeal, without a good plan of what they need, and are concerned that they are not making the right choices to meet their needs. Some agencies continue to struggle with donated equipment that is out of date and requires costly system maintenance contracts. It is not just the cost of equipment that is the problem, but also the training of both administrative and program staff to operate the systems and make the best use of the software on a day-to-day basis. None of this takes into account the replacement cost of older computers, software upgrades, and the necessary retraining of staff members after an agency has become computerized. Without the necessary infrastructure and training, increased reporting requirements take larger and larger portions of staff time and increase administrative costs accordingly. And without systems to track client progress and outcomes, program evaluation is either more costly or is not done at all.

Other Obstacles

A variety of other obstacles were mentioned as well. Two agencies specifically noted the availability of seed money for new program start-ups, but little or none for changes to existing programs. Thirteen agencies noted insufficient capital for capital improvements, increased maintenance costs, new technology, or vehicle repairs/replacements. There are very few "cost of living" increases in program funds or government contracts, yet the costs of providing programming (staff salaries, facilities maintenance, training, and technology) continue to rise. Nine agencies mentioned the lack of funding for optimal staff development and training, specifically in the areas of technology use, professional development and mandatory continuing education. One agency mentioned that it had to raise the salary level of one administrative position to get a qualified person for the job. Some agencies noted that there is insufficient awareness of resources available in the community that will help agencies become more efficient and provide better services.

Few agencies noted that either board members or staffs were obstacles to implementing efficiencies. Two issues arose in connection with this. First, there is always a resistance to change. Change takes both physical and psychological work that staff and board members may be reluctant to do. Second, "politics" has been mentioned as an obstacle to change, especially relating to board members. Board members sometimes have dual roles in relation to an agency. They may be suppliers of services, or friends of suppliers of services. Therefore, they may question when an agency wishes to change to a supplier that offers a different and/or better product at a better price. This creates a conflict of interest that may prevent agency change. Yet it appears that with good communication and planning, all individuals involved in an agency can be brought into cooperation with the process.

Re-Engineering/ Incentive Fund

Throughout the work on this report and in the surveys received, many agencies have mentioned the absence of up-front funds to cover costs of such things as legal advice, facilitation and technical assistance in assessing the pros and cons of making changes; costs of relocating; assistance in making needed technological changes; etc. It is hoped that the creation of an expanded Re-Engineering/Incentive Fund will help remove these barriers by creating a large pool of resources that can be invested in agencies seeking to reallocate their resources to ensure the most efficient and comprehensive service delivery system possible. This Fund will be managed as a community partnership involving the United Way and other funders, can be accessed by a wide range of non-profit organizations beyond just United Way agencies, and could be used for a wide variety of efficiency-generating purposes. Agencies that would like to consider any of the options mentioned in this report are encouraged to look into using this resource to move forward.

Q. Strategic Restructuring: A New Study

As CGR was completing its report, a discussion paper was published by The Chapin Hall Center for Children reviewing Phase I of its study of Strategic Restructuring.[5] While there is much how-to literature written by consultants, this is the first

[5] The paper, Strategic Restructuring: Findings from a Study of Integrations and Alliances Among Nonprofit Social Service and Cultural Organizations in the United States is available for $8.00 from Chapin Hall through its web site, www.chapin.uchicago.edu, or by writing to Chapin Hall Center for Children at the University of Chicago, 1313 East Sixtieth Street, Chicago, IL 60637.

wide-ranging study of organizations that have been involved with strategic restructuring.

This study looked at two types of strategic restructuring: alliances and integrations. According to the study, an alliance includes "a commitment to continue for the foreseeable future, shared or transferred decision-making power, and some type of formal agreement." Alliances are represented by administrative consolidation and joint programming partnerships. Integration includes "changes to corporate control and/or structure, including the creation and/or dissolution of one or more organizations." This category is represented by management service organizations, joint ventures, parent-subsidiary structures, and mergers.

Of the 192 agencies that participated in this study, 45 percent were involved in alliances and 55 percent were involved in integrations. One caveat noted by Chapin Hall is that the organizations which participated in this study were self-selected. Therefore, agencies having unsuccessful experiences with alliances or integrations may have self-selected not to respond.

A variety of organizational characteristics were reviewed. The study found that, "Involvement in restructuring partnerships was over 50 percent higher in organizations aged 11 to 26 years than those aged 0 to 10 years." CGR did not include agency age in its survey. The study also noted that, "organizations with very large (over $10 million) or small annual budgets (less than $500,000) were less likely to be involved in strategic restructuring than those with mid-range budgets." Chapin Hall believes that this suggests that smaller and/or younger organizations do not have the capacity in terms of money, time, and leadership to engage in these behaviors. Larger and/or older organizations may be strong enough in terms of funding base, leadership skills, and program range and, therefore, may not have the motivation to restructure.

In terms of the restructuring experience, the study looked at motivations, goals and benefits, problems, and success factors. Participants were asked to rank various possible motivations for restructuring, the goals and benefits to be obtained, the potential problems, and the success factors. The findings are summarized as follows:

- Motivations to restructure:
    - Most important: internal decisions to increase efficiency/efficacy of their organization and increased competition for funding.
    - Least important: pressure from funders and reduction in private funding.

- Goals and benefits:
    - Most important: to increase services, to increase programmatic collaborations with partner organizations, to increase market share/competitiveness, to increase funding, and to increase administrative capacity/quality.
    - Least important: to prevent their organization from closing, to prevent reduction of size or scope of their organization, and to appease funders.

- Problems:
    - Most significant: staff layoffs, dealing with funders, conflicting organizational cultures, staff adjusting to new roles/positions, conflicting administrative systems, building trust among organizations, interpersonal conflicts, and communicating with various audiences about new restructuring form.
    - Least significant: staff layoffs, dealing with constituencies, dealing with funders, working out legal agreements, and competing goals of partner organizations.

- Success factors:
    - Most important: a staff or board member who championed the alliance, positive past experiences with partnering with other organizations in general, board, support/encouragement, organizational risk taking and/or growth orientation, and positive board/executive relations.
    - Least important: foundation funding to pursue or plan restructuring.

The study also points out factors that appear to promote successful strategic restructuring:

- Leadership has a strong belief in the restructuring and demonstrates this belief.

- Ongoing, multiple forms of communication to keep all stakeholders up to date.
- Face-to-face communications with partner organizations in the restructuring.
- Flexibility to handle unforeseen issues, correct mistakes, and identify alternate paths.
- Identify early evidence of benefits to assure everyone this is the right track.

Most of the findings from this national study are in agreement with what CGR learned from the local survey and its subsequent conversations with some local human services directors. It appears that the Rochester experience differs little from the national experience in this area. Chapin Hall will be involved in a Phase II of its project, which will involve: in-depth case studies of representatives of each category, identification of prevalence in certain geographic areas, and interviews with national leaders and decision makers to determine the impact of these partnerships on the nonprofit and social services sectors. CGR will continue to follow Chapin Hall's work in this area to determine its usefulness to the local community.