

Studies Suggest Why TANGO Model Works in Building Capacity of Small and Medium Sized Nonprofits

Executive Directors are increasingly weighing the cost benefit of outsourcing key administrative functions to external providers as an alternative to hiring staff, but often don't have the time or expertise to evaluate them. These organizations sometimes rely upon volunteer or pro-bono support or less experience/lower trained staff because it is less costly. However this is not the best solution for attaining the expertise and sustained support necessary to effectively manage finance, IT, communications/ marketing, human resources, development, training, evaluation, fundraising, etc. Therefore, the consideration of outsourcing is a viable alternative for organizations that need to improve the quality of these functions. For those considering this option, a relatively new study sponsored by the Eugene and Agnes E. Meyer Foundation looks at the various outsourcing models, and provides a framework for evaluating them. Although the research is focused on back office services in small nonprofits, it can be generalized to mid-sized organizations. The full report can be found at [Outsourcing Back-Office Services in Small Nonprofits](#). TANGO was a participant in this study.

There are various options for outsourcing; service providers who conduct single functions (e.g. HR and accounting firms); foundation sponsored support; freelance individual contractors, some of whom operate under the auspices of a nonprofit support organization; collective purchasing providers; and in some areas even regional membership organizations take on this function. The Myer Foundation report offers encouragement and guidance for funders who are often reluctant to support capacity building efforts of smaller organizations and cautions against the one size fits all capacity building solutions.

Some highlights of the study on outsourcing services;

- HR, finance and IT are the most in demand for outsourcing. Development and fundraising assistance by outside firms are also in high demand
- outsourcing may make a higher level of skill available to the nonprofit than they can afford to hire as staff
- the back office needs of most smaller nonprofits go largely unmet because they are not engaged with service providers that have realistic pricing structures that meet the needs of these organizations
- organizations should think long term rather than short term when considering the cost savings
- one third of organizations studied continued to be plagued by poor cash flow and underperforming fundraising capacity, and lack financial planning
- Organizations of 5-20 employees have poorly handled human resource functions and experience burnout, high staff turnover and inefficiency. Those leading these organizations tend to be managing some of these functions and self reported dissatisfaction with how they are performing these functions

The smaller the organization, the more difficult and costly it is to effectively and efficiently manage these functions, and raise money to pay for them.

Unfortunately, there has been only modest interest in funding these critical activities, regardless of the model. Although service/infrastructure providers exist, access to them is limited for most nonprofits. According to a *Nonprofit Quarterly* [Nonprofit Quarterly Study On Nonprofit And Philanthropic Infrastructure](#) foundation support has primarily targeted support/infrastructure organizations that serve the larger nonprofits, which make up only a fraction of all nonprofits, leaving small and medium size organizations under supported. The top infrastructure organizations received half of the total funding from these foundations. The result is that capacity building support has been concentrated among limited number of very large nonprofits, thereby not reaching small and medium organizations. NQ reports that over a five year period, nationally 55% of infrastructure came from only 10 foundations, with five of them accounting for 40% of that funding. Even worse for small to medium nonprofits, foundations that support capacity building efforts tend to be national, and these organizations do not have the relationships necessary to get the attention of national foundations.

The good news is there is increasing convergence of thought that nonprofits and their current funders need to collaborate more in capacity building efforts, and outsourcing should be considered as an option, especially in small and mid-sized organizations. Whatever the solution; hiring skilled staff or outsourcing, a more equitable distribution of funding for infrastructure support is in order.