

Charity begins in the office

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TechnoServe received a \$2.9m grant from Microsoft last August. The grant was not a donation towards one of the non-profit's programmes, which equip entrepreneurs in the developing world to establish businesses that create jobs and reduce poverty.

It was for an information technology upgrade, allowing the organisation to standardise IT tools across its offices worldwide.

However, for many non-profits, this kind of grant remains an elusive dream. Too often, funding comes with strings attached - strings limiting the spending to programme work rather than on support functions such as staff training, improved IT systems or HR management.

"Funding that is targeted to programmes almost exclusively, with minimal overhead allowances, remains a major problem," says Raj Kumar, president and co-founder of the Development Executive Group, which provides business intelligence and recruiting services to the development community.

Yet, as many in the sector point out, boosting operational efficiency by investing in technical training, HR management or streamlined procurement systems not only helps organisations work more effectively but can also mean more cash for mission-driven activities.

As a result of working with IBM on a shared procurement system, for example, the Georgia Center for Nonprofits, which helps organisations make better use of their resources, found charities could cut procurement costs by up to 30 per cent. By standardising processes, they could cut associated administrative costs in half.

And for a charity that, say, delivers emergency relief supplies, investments in training for logisticians would be money well spent because it could help the organisation deliver those supplies faster.

What makes it hard to attract money for such initiatives is that employee training, IT systems and office efficiency measures are invisible and do not provide the kind of images that appeal to donors and cannot be easily turned into compelling stories that link to alleviating poverty, improving access to healthcare or saving a portion of rainforest.

Moreover, individual donors are often unaware of the importance of back office operations. "There's a naivety in thinking that their £10 floats magically across the world and turns itself into food that goes in the mouth of a starving person," says Gib Bulloch, director of Accenture Development Partnerships, part of the Accenture consulting and technology services group that provides services to non-governmental organisations and non-profits in developing countries.

"They don't understand the fact that investing in people, technology and systems may actually have more impact on poverty, health and education than this race to the bottom on overheads," says Mr Bulloch.

The focus on overheads as an efficiency measure troubles many in the non-profit sector. In the absence of hard measures, counting spending on overheads has been raised to a prominence seen as unhelpful. "It's one of the few quantitative and universally comparable measures so it gets a lot of attention," says William Foster, a partner at Bridgespan, a non-profit spin-off of consultants Bain & Co that offers services to foundations and non-profits. "It's not what people aspire to as an end goal but, because it's so measurable, it's given outsized attention."

A symptom of this, according to Mr Kumar, is that non-profits are starting to bid for government contracts from agencies such as USAID - contracts that were once the preserve of private sector companies but now attract non-profits as they provide funding for overhead investments.

Another, less positive, effect of funding restrictions is that organisations may mask overheads as project costs in their accounting. When Bridgespan, in a report*, calculated the cost of doing business for four organisations and compared that with the overhead spending those organisations reported, it found that while they stated rates of 13 to 22 per cent, actual rates ranged from 17 to 35 per cent.

Interviewees complained about funder expectations. "Donors often ask me about our administrative costs," said one finance director. "It seems that they always want to make sure that we're under 20 per cent. I always end up launching into my spiel about the importance of effective administration. It's so frustrating!"

The finance director's frustration reflects a bigger problem - the fact that donors' focus on low overheads prevents organisations from becoming more efficient. "It constrains non-profits from investing in forward-thinking initiatives, such as IT, developing new funding streams, and strategic planning, because all of these require overheads," Mr Kumar says.

There is, of course, another side to the story: the ability of non-profits to improve their accountability and measurement of the impact of their programmes - something that might encourage donors to relax their scrutiny of overhead expenditure.

Paul Shoemaker, director of Social Venture Partners Seattle, a network of donors that partner with non-profit organisations, believes that in this respect the funding issue is "a two-way street".

"People ask whether, if you want less restricted funding and more flexibility, [non-profits] become unaccountable - and the answer is absolutely not," he says. "Accountability in any sector is a good thing. We've just created the wrong kind of accountability mechanisms in the non-profit sector."

Mr Shoemaker believes donors must become more flexible and effective in their funding practices, while non-profits need to do a better job of demonstrating and communicating the impact of their activities.

Some examples of this type of relationship exist. The Edna McConnell Clark Foundation, which helps low-income young people gain access to services and programmes that will improve their lives, has strict demands for accountability from its grantees. The foundation makes funds available for things such as leadership development, with grants for executive coaching and search, succession planning and board development and recruiting.

"They are well known for giving larger than normal grants over multi-year periods of time that are unrestricted," says Mr Foster. "Which is exactly what non-profits need to build long-term organisational strength that creates impact."

And TechnoServe will certainly feel the impact of this kind of grant making. With Microsoft's money, it will integrate throughout its operations Microsoft Office and other applications and operating systems such as Exchange, SQL Server, SharePoint and Outlook.

"As we grow, we need to upgrade IT and recruitment systems," says Bruce McNamer, chief executive of TechnoServe. "Because we need to run our organisation in an efficient way."

Chances are, the new systems will not appear in photographs in glossy brochures or annual reports. But TechnoServe's enhanced efficiency will ultimately have an impact, allowing it to support more developing country entrepreneurs as they build businesses, generate incomes and improve prospects for their families and their communities. * *Nonprofit Overhead Costs: Breaking the Vicious Cycle of Misleading Reporting*, Bridgespan Group, April 2008

Online system offers aid for managing grants

As non-profits seek ways to become more accountable to their funders, one technology solution could help. This is an online grants management system provided by the PhilanTech company.

The system, called PhilanTrack, streamlines the creation of grant proposals as well as the reporting on how grants are spent. The idea is to allow non-profits to spend less time on reporting, and help re-direct resources towards mission-related activities.

While the service is designed to help donors handle proposals from non-profits and oversee the grants they give, the grantees benefit too. "We've constructed it in a way that makes it easier for [non-governmental organisations] to manage their reporting to multiple donors," says Dana Goldstein, PhilanTech founder.

With the help of Elizabeth Keating, a Boston College professor, PhilanTech is also designing an analysis tool to give foundations a more accurate view of the financial status of an organisation, from its funding mix to its liquidity and debt-servicing ability.

The PhilanTrack system emerged from work Ms Goldstein did on an internship at Ashoka, the social entrepreneurship organisation, while taking her MBA at New York University's Stern School of Business. Ms Goldstein was given the task of evaluating the social impact of Ashoka's fellowship programme. "As I was interviewing their peers and looking at the content, I discovered that everyone was doing their reporting on paper," she explains, "I had a background in technology and this seemed ridiculous to me."

Ms Goldstein designed a system for Ashoka that was a modification of the balanced scorecard used in the corporate world that enabled the organisation to assess individuals at the start of their fellowship and have them report three years later against the social scorecard criteria she devised. This led her to develop a centralised system serving the needs of funders and NGOs.

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