“Efficiency” and “Not-for-Profit” Can Go Hand-in-Hand

In today’s nonprofit business environment, operating efficiently is not just a good idea, but a necessity for success and sustainability. Organizations can no longer (if they ever could) afford to waste time and effort on duplicative procedures or manual workarounds. Ultimately, such inefficiencies are both a financial and a mission problem, leading to unnecessary expenses, as well as staff having less time to address organizational goals.

Two participants in the *Strengthening Financial Management* initiative sponsored by The Wallace Foundation have taken great strides in recent years in seeking out and solving inefficiencies throughout their organizations. Their efforts have paid off not just from a financial perspective, but for mission effectiveness as well.

INVESTING IN SMALL CHANGES CAN LEAD TO BIG EFFICIENCIES

In 2009, the Carole Robertson Center for Learning (CRCL), which provides high-quality child and youth development programs to Chicago’s West Side, was in a tough financial situation. More than 80 percent of its funding came from government sources, which were becoming increasingly uncertain and even erratic. CRCL’s accounting practices and systems faced a significant challenge meeting the heightened the need for accurate and timely financial reports and cash flow management necessitated by contract cutbacks and delayed state payments.

Finance staff spent hours generating reports from the accounting system, only then to manipulate the data further in Excel. Tracking each contract individually and manually seemed to take forever, and there always were concerns about the accuracy of results. This inefficient reporting system was the tipping point for CRCL’s decision to invest in upgrading its accounting software and updating its chart of accounts.

The two changes had a significant effect on accounting operations. “We are able to save at least three hours per month,” notes Julie Fisher, CFO at CRCL. “Spending the time to clean up our chart of accounts and upgrade the system has allowed us to generate accurate reports with the touch of a button.”

But while saving staff time has been critical, improving the confidence in and timeliness of CRCL’s reports may have had even more important results. The staff now is able to track the financial position of each program, informing hiring decisions and even spending cuts when necessary. This real-time decision-making capability has proven valuable several times in the past few years, including, for example, when CRCL was determining whether or not to begin a new early childhood program for teen parents. Fisher was able to quickly generate and analyze hard data on possible enrollment and staffing scenarios.

Improved financial reporting was only one aspect of CRCL’s efficiency turnaround. For years, the finance office had grown along with the organization, that expansion happened with an absence of planning. After a deep internal assessment of the fiscal staffing model and external benchmarking across similar organizations, CRCL realigned department functions to streamline operations. Fisher previously managed both government contracting and day-to-day accounting responsibilities, leaving little time for her to engage in strategic projections and analysis. Today, accounting and contracting functions are separated, allowing for the development of specialized expertise among the staff in ways that both save time and increase accuracy.

Fisher and her staff have worked diligently to build a more robust and efficient finance department, one able to deliver the real-time financial data and analysis that CRCL’s leaders need to make good decisions.

MERGING TO SERVE CONSTITUENTS BETTER

Like the Carole Robertson Center, Big Brothers Big Sisters of Metropolitan Chicago (BBBSMC) has spent nearly three years improving its internal operations. Today, walking around the organization's offices, one sees the value placed on efficiency. An important stop on the office tour is in the staff common area where the organization's performance metric dashboards are posted. Touches like this make it clear that, for Executive Director Art Mollenhauer and BBBSMC, operational efficiency is of the utmost importance.

Three years ago, this was not the case. At the time, there were two Big Brothers Big Sisters programs operating in neighboring counties, Cook and Lake, in the Chicago area. The organizations shared a common mission of providing positive relationships for young people through volunteer mentorship – but little else. According to Mollenhauer, the Lake County division operated with almost no administrative staff, with tasks like accounting being performed by people with limited training or expertise. Basic fiscal management tasks such as managing payroll and preparing for audits were difficult and risky challenges. Key stakeholders including funders, community partners and board members began pushing both executive directors to define and defend the advantage of maintaining two separate entities.

After close to two years of strategic thinking and planning, Big Brothers Big Sisters of Metropolitan Chicago merged with the Lake County organization. "We were able to relieve the administrative pressure and to let the people focus on their strengths," says Mollenhauer. "Prior to the merger, staff would spend hours working on finding insurance for a field trip; now they can focus on improving program quality."

Today Mollenhauer can cite a wide range of the organization's supporters and stakeholders who have expressed to him their happiness with the merged entity. Foundation funders have been more supportive as the organization has increased its efficiency and shown that it now has the bandwidth to focus on and demonstrate 3 results. Individual donations are also on the rise. Even vendors have become more cooperative as they get paid more quickly thanks to the organization's improved accounting systems. On the expense side, rent and utility costs have decreased with the scaled down occupancy needs of the merged organization; the combined entity pays for only one audit instead of two, cutting this line item nearly in half; and insurance premiums have declined, due to the carrier's increased confidence in the larger, more stable organization.

In addition to the gains in overall efficiency through consolidation, BBBSMC has been analyzing its own systems and processes to identify additional productivity gains. As a result, the organization recently upgraded its accounting system, moving from a basic off-the-shelf software to a more sophisticated and nonprofit-specific system that can generate user-friendly reports with little manual manipulation. By analyzing more timely and reliable information, Mollenhauer says he is able to make more informed and effective decisions.

As is the case with many strong organizations, the culture of efficiency at BBBSMC is deep, extending well beyond the executive director. The staff works collaboratively to identify gaps in current systems and engage in root-cause analysis of everything from why a client did not receive a timely follow-up call to reasons for the failure of a mentorship match. BBBSMC's director of finance currently is leading an internal planning and improvement effort, using an efficiency lens to guide the process. Of course, these data- and efficiency-driven behaviors are relatively new to BBBSMC and did not happen overnight. They are the result of an ongoing effort, led by Mollenhauer, to change the organization's culture.

Mergers require a substantial investment of time and resources. BBBSMC credits its relatively smooth integration phase to the two years the leadership team spent developing and executing its strategy. In some cases, less extensive collaborations, such as combining certain back office functions, are a more appropriate path. Like mergers, however, these efforts require significant alignment of the organizations' needs and capabilities and are not the right answer to every efficiency question.

CONCLUSION

Among the lessons for efficiency-seeking organizations from the examples of the Carole Robertson Center for Learning and Big Brothers Big Sisters of Metropolitan Chicago are these:

- Efficiency and quality often go hand in hand. Too often, efficiency is thought of as a trade-off with accuracy, on the logic that doing something quicker necessarily sacrifices quality. In fact, gains in efficiency are most often driven by increases in specialization, standardization, and automation—the same drivers of gains in quality. BBBSMC and CRCL both adopted new accounting systems that reduced errors caused by manual manipulation of accounting data while at the same time allowing for easier, “push button” reporting. Focusing on doing things better often leads to doing them more quickly as well.
- Economies of scale—internal or external—are important. Finding ways to combine tasks in logical ways can cut costs through efficiency gains, as well as increase quality by introducing specialization. CRCL did this by separating out the accounting and contracting functions of its fiscal office, allowing staff to focus on a narrower range of finance tasks. BBBSMC did it through external consolidation, bringing in a partner to combine overlapping functions in a more efficient way.
- Leadership commitment is key. An efficient organization is driven by a tone at the top of commitment to finding opportunities for improving operations. BBBSMC’s Mollenhauer has taken a very personal role in making his organization run more efficiently and focusing employees on their progress and successes.
- Efficiency in nonprofits is not just about reducing costs, but can have a real mission impact as well. Inefficiencies often are felt most by program staff, who are forced to deal with administrative tasks in ways that take time and energies away from delivering and improving services. Boosting efficiency therefore can have an impact on both of a nonprofit’s bottom lines. BBBSMC’s merger helped the organizations to streamline insurance purchasing, allowing the program teams to focus more of their energies on planning successful field trips, rather than negotiating with insurance agents about them.