

Outsourcing Non-Core Functions: The Pros, Cons, Best Practices and Things to Consider

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Presented to you by:



Speaker Bio



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Enkel

[en-kel] Adjective | Simple

Co-founded by Omar in 2016 with a simple problem in mind ***“You can’t build a great organization without good books”***

- 300 Clients
- Worked with over 100 NPOs
- 80 team members with a global delivery model
- Focus on *Financial Operations* **not** advisory, tax and assurance work

Enkel would like to acknowledge that our offices are situated on the unceded traditional territories of the xʷməθkʷəyəm (Musqueam), Sk̓wx̓wú7mesh (Squamish), and səlilwətəʔ (Tseil-Waututh) Nations.



Agenda



1. Why should you consider outsourcing
2. What is Outsourcing
3. Labour Market Trends
4. Pros and Cons of Outsourcing
5. Best Practices when Outsourcing



Why should you consider outsourcing?

Primary benefits of outsourcing

One thing is certain - NPO leaders have limited time and resources. How you manage both is key to delivering on your mission.

Outsourcing can help you achieve:

- **Scalability** - grow or reduce capacity as needed with fewer resources required to hire and train
- **Reduced management overhead** - limit time spent overseeing non-core functions
- **Cost efficiency** - pay for what you need
- **Expertise** - hire the right people to do exceptional work



The financial benefits of outsourcing

Summarizing a research study of 1,700 SMBs, CPA Canada (Dec 2019) states that organizations that outsourced their accounting services reported:

- **Increased profits** (28% compared to 16% that didn't outsource)
- **Increased revenue** (23% compared to 14% that didn't outsource)
- **More time** to focus on business (80%)
- Accounting was made **easier and more efficient** (68%)
- **Worried less** about errors (53%)





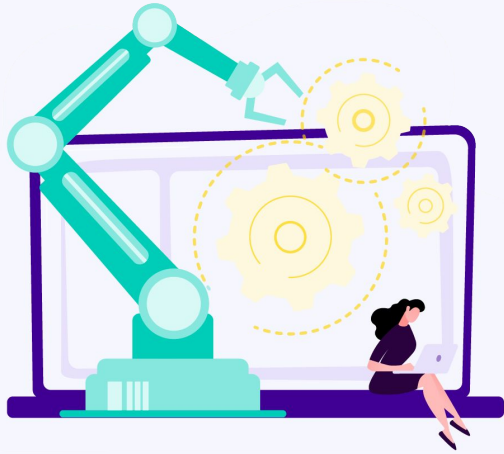
Let's say you have a part-time bookkeeper that gets paid \$21/hour which works out to roughly \$1820/month. Their true cost is more like \$2180-\$2500.

The hidden value of outsourcing (the true cost of an employee)

- Salary + CPP + EI
- Stat pay, vacation pay, additional benefits
- Cost of onboarding and training
- Your salary cost in time spent managing
- Overhead costs including their workstation (computer, monitor, desk, chair)

It's reported an employee costs 1.2 to 1.4 times their base salary. And this doesn't include recruiting and replacing an employee when there's turnover.





Outsourcing Defined

What is Outsourcing?

- Outsourcing is when an organization hires a third party to perform tasks, handle operations or provide services for the organization.
- The outside company, which is known as the service provider or a third-party provider, arranges for its own workers and/or computer systems to perform the tasks or services either onsite at the hiring company's own facilities, or from external locations.
- Outsourcing is commonly used for “non-core” functions.
- \$731 billion – projected global spend on outsourcing for 2023. (Deloitte).



Polling Question:

Do you currently outsource any roles or functions at your nonprofit?

(Yes/No)



What are Non-Core Functions?

- Not directly related to the primary missions or core activities of an organization
- Supportive, ancillary tasks necessary for the efficient operation of the organization
- No less important



Non-Core Functions Commonly Outsourced

- Legal Services
- Payroll
- Accounting
- Investment Oversight
- Tax Compliance
- IT
- Marketing/Advertising/PR
- HR/Recruiting
- Data Management
- Travel
- Fundraising
- Membership



Polling Question:

Which of the following roles/functions do you currently outsource?

(Click all that apply)

- Financial Operations (bookkeeping/payroll/AP/AR)
- Human Resources
- Fundraising and Development
- Marketing/Communications
- IT/Technology Support
- Facilities/Property Management
- Legal and Compliance
- Volunteer Management
- Board Governance
- Other
- None



Labour Market Trends

The Current Job Market

Unemployment rate still firmly below pre-pandemic levels despite 3 months of consecutive growth:

- Unemployment rate was 5.5% (July 2023)
 - Rate climbed .5% in 3 mos. due to population growth from immigration
- Average hourly wages grew ~5% in July
- Top 5 roles hard to hire in 2023: SW Developer, HR Manager, Mechanical Engineer, Welder, Accountant/Bookkeeper



of hiring managers still face tough challenges in landing new talent

Looking Back: The Big “Quit”

- Covid, lay-offs and wfh situations made people rethink their work/career choices
- Many didn't return to work or seized the opportunity to make big life/professional shifts
- Boomers retired early while teens and 20-somethings are walking out
- Mothers stayed home
- Re-location to more affordable areas
- Created a huge price tag for employers in the form of
 - higher salaries and better benefits
 - expanded paid leave, personal days, and sabbaticals
 - increased minimum wage

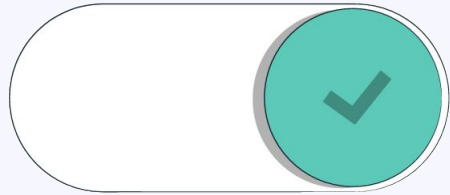
Half of Canadian workers plan to look for a new job in 2023

Current Labour Market Trends

- Remote work and telecommuting
- The “Gig” economy
- Automation and AI
- Skill specialization
- Workforce diversification
- Learning and reskilling
- Aging workforce
- Enhanced company benefits/perks
- Collaboration and teamwork
- Flexible working arrangements



Pros & Cons of Outsourcing



Outsourcing Pros

- Cost optimization
- Expertise and specialized skills
- Focus
- Flexibility and scalability
- Risk mitigation
- Efficiency and quality
- Consistency
- Results



Outsourcing Cons

- Communication and coordination issues
- Dependency on external providers
- Data security and confidentiality risks
- Cultural and ethical considerations
- Hidden costs and contractual issues

Other considerations

- Outsourcing does not mean that you “set it and forget it”
- Someone within your organization needs to be accountable for the results of the service provider and for making them successful
- Who is responsible for sending in inputs to your service provider?
- Who is responsible for communicating organizational changes to the service provider?

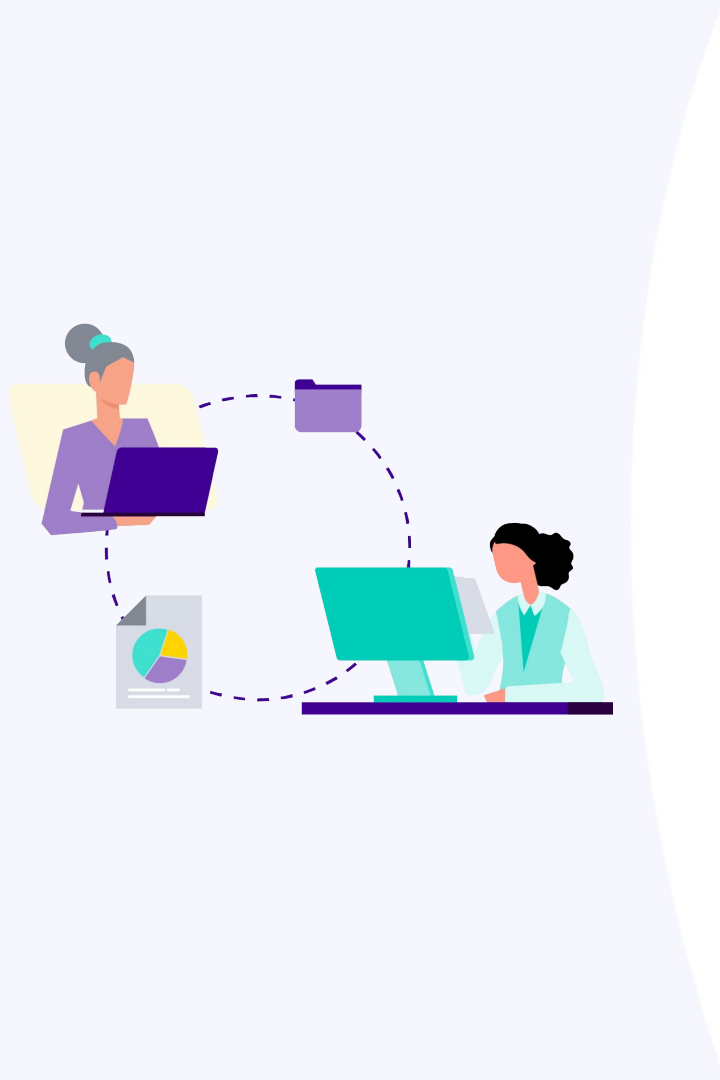




Best Practices When Outsourcing

Best Practices

- Define clear objectives and requirements
- Conduct thorough vendor evaluations
- Establish clear communication channels
- Develop a detailed service level agreement (SLA)
- Implement robust contract management
- Provide adequate training and knowledge transfer
- Maintain performance monitoring and evaluation
- Foster a collaborative relationship
- Plan for continuity and risk mitigation



Other things to consider when selecting 3rd party providers

- How do they deliver the service?
- What does their administration and client support function look like?
- Do they “get” you? How deep have they gone into understanding you and your problem?
- Do they have a partner versus vendor mindset?
- Do they understand the space you are in?
- Do they have a proven track record with references who sing their praises?
- Do they take data security seriously?



Reviewing Contracts

Now that you have selected a service provider, what terms should you look out for in the engagement letter?

- Term of the contract
- Scope of services - What is included and what is excluded?
- Who owns the data?
- Who owns the system?



Is Outsourcing Right For You?

Activity

Rating (0-10)

1. Is the activity core to the organisation?

2. Will outsourcing risk instability?

3. Will outsourcing reduce cost?

4. Will outsourcing increase efficiency?

5. Will outsourcing be more flexible than current arrangement?

6. Does risk increase?

7. Will users gain more satisfaction?

8. Will new ideas come forward?

9. Will fixed costs become variable?

10. Will the relationship be easy to maintain?

11. Will the outsource introduce new skills?

12. Will the outsource enable us to grow?

13. Is a large capital investment required?

14. Is the activity easy to outsource?

Where we've seen the greatest success?

At Enkel, we've worked with over 100 NPOs. Most of our NPOs have an annual operating budget of \$0.5 million to \$5 million. These are three most common functions that we see outsourced:

- Accounting
- Human Resources
- IT management and data security

If you are a small NPO, it's unlikely that you need a full time resource in any of these areas. That said, these are critical functions to any organization.



“I think outsourcing is the way of the future for nonprofits. The philanthropic world is reluctant to fund costly operations and administration because it takes dollars away from the core mission. Not only am I getting great, multi-disciplinary services, but my costs to get that level of service are way lower than they would be if I had to hire all of the people to do the work, and then manage them day-to-day.”

Rebecca Pauls, Executive Director, PLAN



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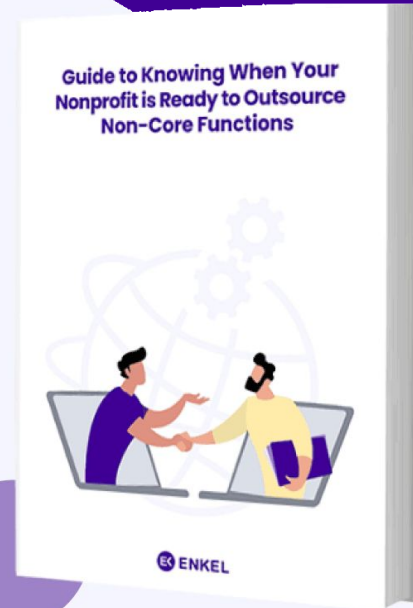
Questions?

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Download our newest Guide:
[Guide to Knowing When Your Nonprofit is Ready to Outsource Non-Core Functions](#)