

Moving beyond overhead myth

Written by Mel and Pearl Shaw, FUNdraising Good Times
Monday, 08 July 2013 12:00



A public discussion is stirring on the topic of nonprofit overhead and the extent to which overhead costs should influence giving. The three leading sources of information about nonprofits recently issued a call to action asking individual and institutional donors to stop using "overhead" as the measure of a nonprofit's success. [GuideStar](#) , [Charity Navigator](#) , and [BBB Wise Giving Alliance](#) have issued a call to donors to move beyond the "Overhead Myth."

Here's the background. Nonprofits are required to report administrative costs and fundraising costs when they file their 990 form with the IRS. These are costs that are not directly related to nonprofit services or programs. Administrative costs include things such as human resources and accounting personnel, information technology and management systems. Fundraising costs include staff time and materials dedicated to donor development, and fundraising events among others. Together these represent "overhead."

Some people believe that low overhead is a sign of an effective and well run nonprofit. We join [GuideStar](#) , [Charity Navigator](#)

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, and

[BBB Wise Giving Alliance](#)

and others in taking a different stance. Long time readers know that we believe "impact" is the measure of a nonprofit. And, for many organizations and institutions high impact requires an investment in what we refer to as "capacity and infrastructure" or "overhead." Nonprofits need to invest in technology and talented staff. They need to compensate employees with competitive salaries and benefits and provide them with the tools they need to best deliver on their mission and vision.

Overhead ratios do not communicate effectiveness. Emphasizing these ratios as a basis for funding and giving decisions has led to what the Stanford Social Innovation Review has called the [The Nonprofit Starvation Cycle](#) and what the Center on Nonprofits and Philanthropy, Urban Institute & Center on Philanthropy at Indiana University refers to as [Getting What We Pay For: Low Overhead Limits Nonprofit Effectiveness](#)

Overhead costs and ratios may vary from year to year, and from institution to institution. There are always new ways to consider minimizing costs, but a "race to the bottom" is not what the nonprofit sector needs. Consider looking at impact instead. Encourage the nonprofits you believe in to participate in Charting Impact (www.ChartingImpact.org). Prepare to answer these five questions: What is your organization aiming to accomplish? What are your strategies for making this happen? What are your organization's capabilities for doing this? How will your organization know if you are making progress? What have and haven't you accomplished so far?

If you are concerned about how donated funds are used by a nonprofit you support, take the time to review their annual report, their 990 form (posted online at www.Guidestar.org), and ask to speak with management. Looking at overhead costs won't answer your questions.

Learn more at www.overheadmyth.com

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