

COMMENTARY

End the charity overhead myth

How do you know a charity is good at its chosen work? In the for-profit world, it's pretty easy to judge success: Apple sells 10 million iPhones or Starbucks opens 4,000 stores.

Increasingly nonprofits are being held to the performance standards of the for-profit world, yet they are lambasted when they spend money on overhead — administrative work or, heaven forbid, fundraising. Leaders in the nonprofit accountability field are now working to end “the overhead myth.”

To run any business, phones need to be answered, bills need to be paid, accounts reconciled and finances audited. Nobody questions those expenses in the for-profit world as long as the firm is selling more product, making more money. Nonprofits are not so simple.

The typical social service nonprofit loses money every time it does its work. Food banks give food away. Domestic violence shelters give housing away.

The nonprofit I co-founded 20 years ago provides physical therapy and horseback riding lessons to disabled children and adults either for free or for a fraction of the actual cost. Our business models are identical in this respect: The more service we provide the more

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money we lose.

It's the world's worst business model, unless your goal is to make the world a better place.

Successful nonprofits know exactly how much money they lose every time they serve a client. They necessarily spend staff time and money to fundraise so they can continue to perform their chosen mission. If they don't, they fail.

If they do fundraise, the current system penalizes them. Likewise, emails need to be returned, donors need to be thanked — all crucial administrative tasks for a successful business or nonprofit.

The traditional yardstick for evaluating nonprofits was to define these tasks as “overhead.” The accepted wisdom is that the less spent on managing and raising money and the more spent on programs, the more “effective” the nonprofit. This approach to measuring nonprofits is enshrined in federal tax forms, the IRS Form 990, that most nonprofits must file.

The Great Recession of the last few years has helped fuel a re-evaluation of this approach.

The CEOs of three major charity evaluation groups, Guidestar (www.guidestar.org), Charity Navigator (www.charitynavigator.org) and the Better Business Bureau Wise Giving Alliance (www.bbb.org/us/charity) have now joined efforts to encourage donors to focus their attention on more relevant factors behind nonprofit performance: transparency, governance, leadership and results.

In an open letter published by these leaders recently on www.overheadmyth.com, the CEOs wrote that “Overhead costs include important investments charities make to improve their work: investments in training, planning, evaluation, and internal systems — as well as their efforts to raise money so they can operate their programs. When we focus solely or predominantly on overhead ... we starve charities of the freedom they need to best serve the people and communities they are trying to serve.”

We don't hamstring the leaders of Apple and Starbucks by second-guessing them on the computer systems they choose to buy or how many billing clerks or accountants they need. We judge them on financial results. Nonprofits have results; we just need

a more nuanced approach to identify them.

Think of your donation as an investment in the health of our community and use the same mind set to evaluate a charity as you would use on any investment: do you love the mission (product)?

Look at their track record, their leadership and their financials. Take a tour just as you would visit an Apple store and talk to the staff and people being served (customers). Look at other groups doing the same work (the competition). When you look at their website, does the nonprofit emphasize this transparency and its history of service or is it vague or absent altogether?

A little reflection before you donate will minimize the chance of supporting badly run nonprofits or outright scammers.

The point of all this evaluation is drive charity resources where they will do the most good. Using overhead as a lens through which we view nonprofit performance starts us down the wrong path.

Accurately evaluating nonprofit performance will leave our world a little bit better.

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