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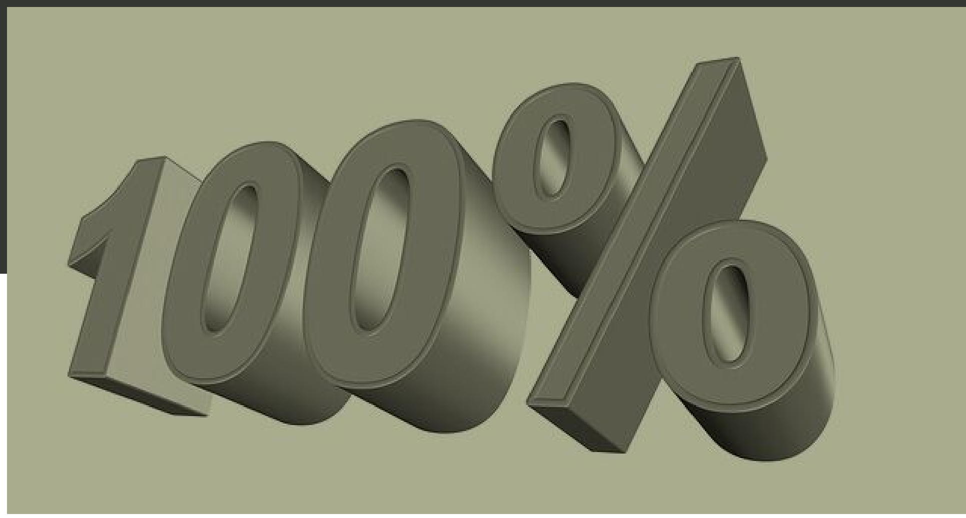
A Timely Critique of the "100 Percent Promise"

07.27.22 | Linda J. Rosenthal, JD



Our colleague and friend, Professor Brian Mittendorf, Ph.D, CPA, has important thoughts and cautionary advice on the widespread use by nonprofits of the “100 Percent Promise.”

What exactly is that? It’s the representation connected with fundraising appeals that all money collected will go to “programming….” What that means, and what the average donor expects it to signify, is a firm commitment that no amounts at all will be diverted from the direct conduct of the program or project described in the solicitation. There are no exceptions for “… new administrative staff, fundraising appeals, computer upgrades, or even donation processing support.”

Donors love it, of course; especially those “who want to make an impact.” They gobble it up. It’s a “ simple-to-understand pledge” to “satisfy donors’ appetite for spending assurances.” Many nonprofits eagerly jump on the bandwagon; it’s a tempting way to draw in much-needed funding. And because so many organizations dive in feet first, the holdouts find themselves at a competitive disadvantage.

While there “are circumstances for which it is well suited,” writes the Fisher Designated Professor of Accounting at The Ohio State University in the prestigious *Stanford Social Innovation Review* (SSIR), it’s not a good fit for some – perhaps many – nonprofits. *See Is the ‘100 Percent Promise’ Right for Your Nonprofit?* (July 19, 2022).

Dr. Mittendorf warns that the “100 Percent Promise” can and does sometimes – (perhaps often) – “become a source of frustration” particularly “when it is misunderstood by donors” as well as by the organizations. The prevalence of this practice also has negative ripple effects throughout the nonprofit sector. It leads to the perpetuation of the troublesome “Overhead Myth”: the false notion that nonprofit organizations can run on fumes without paying for their staff, infrastructure, and operations.

We all know they cannot.

The Overhead Myth

We've been yammering on for ages about the Overhead Myth and its ideological parent, The Starvation Cycle. See, for example: *Are Funders Ready To Throw The Overhead Myth Overboard?* (January 16, 2019).

In a nutshell: It was in the pages of the *Stanford Social Innovation Review* itself, back in 2009, that Ann Goggins Gregory and Don Howard published a landmark article: *The Nonprofit Starvation Cycle*. "It was a forceful articulation of the reality that it takes money to achieve charitable purposes. Nonprofits should be allowed to spend enough in overhead (including salaries) to avoid continually being in dire financial straits."

Four years later, in 2013, came the TED Talk by activist and fundraiser Dan Pallotta titled *The way we think about charity is dead wrong*. In that session that went viral, he "railed" about the bad rap on overhead, the "double standard that drives our broken relationship to charities." Nonprofits are lauded for "how little they spend – not for what they get done."

Soon after, the editors of *The Nonprofit Quarterly* posted a landmark letter from charity-monitoring groups, GuideStar, Charity Navigator and the Wise Giving Alliance. See *The Overhead Myth* (June 17, 2013). That document begins with a plea to the Donors of America: "We write to correct a misconception about what matters when deciding which charity to support. The percent of charity expenses that go to administrative and fundraising costs—commonly referred to as "overhead"—is a poor measure of a charity's performance."

More attention should be paid "to other factors of nonprofit performance: transparency, governance, leadership, and results…."

More, indeed.

Brian Mittendorf steers us to the irreverent nonprofit blogger, Vu Le, for a succinct and masterful summary of the issue; see *charity:water and other mega-charities, we need to talk about your harmful, archaic views on overhead* (November 7, 2021) *Nonprofit AF Blog.*

"Telling donors that you won't spend a penny of their money on overhead is," (according to this distinguished nonprofit-accounting expert and channeling Mr. Le's style of saying the quiet parts out loud and directly to the people who need to hear them): "nonsensical" and "manipulative."

It's insulting to people whose work is considered "overhead" and makes it harder for organizations with relatively higher overhead to attract donations and reinforces "the idea that nonprofits are 'opaque and shady.'"

Professor Mittendorf elaborates: "The problem is that donors often associate the 100 percent model with 100 percent efficiency, imagining that overhead funding might crowd out program accomplishments. Such a misunderstanding can create an expectations gap. And committing to devote 100 percent of contributions to programs risks setting an unrealistic standard, even perpetuating the myth that program spending is inherently better than other spending."

A Good Fit?

So, with those caveats in mind, does that mean that the "100 Percent Promise" must be tossed out entirely? No, he answers, but there are clear indicators about which organizations can use it and in which situations.

First, "… nonprofits should think about relevant costs and incremental spending before adopting this one-size-fits-all approach."

Second, "[c]harities who make the 100 percent pledge are not claiming they only spend on programs, of course; the commitment is only about what to do with extra dollars." In the right circumstances, "this commitment can be a boon for some" organizations, but only "when communicated properly.

He effectively explains how and why, "though it may seem counterintuitive, the 100 percent model permits an organization to match donor priorities more effectively, if done right." They key is seeking out and cultivating that "… subset of donors who are willing to support administrative infrastructure"; they know that "it will make it easier for the organization to seek administrative funds and scale operations." The seed funding provides the firm footing through which the nonprofit can then go out and solicit donations from people "whose goals center on funding programs." He gives examples and cites research backing up these ideas.

In the final section titled "The 100 Percent Model Is Not for Everyone," he cautions that it "may only be appropriate for a small number of charities" and outlines the types of organizations for which this approach can work well.

Conclusion

This OSU professor concludes his comments by urging those organizations who can and do successfully use the "100 Percent Promise" model to "avoid creating an impression that it is a sign of superior virtue. Instead, the model reflects a particular funding mix and cost structure, one that often cannot be replicated by all other organizations. A healthy nonprofit sector has room for these different types of organizations to co-exist in a symbiotic fashion."

— Linda J. Rosenthal, J.D., FPLG Information & Research Director