

Are Funders Ready to Throw the Overhead Myth Overboard?

01.16.19 | Linda J. Rosenthal, JD



Once upon a time – not so long ago – the directors and executives of America’s nonprofit organizations lived in an enchanted forest.

On the stroke of midnight, a fairy godmother swooshed in and waved her magic wand. Poof! – Gone were all of the general operating expenses their do-gooder groups had incurred that day. Bright and early the next morning, these grateful inhabitants were free to – truthfully – tell all and sundry that yesterday’s generous donations and grants had gone *entirely* to wonderful charitable projects.

It Was All a Cruel Dream

About a decade ago, a few brave souls made their way through the dense underbrush to explain to anyone willing to listen that none of it is true.

We explained in a recent post how, back in 2009, authors Ann Goggins Gregory and Don Howard had published a landmark article in the prestigious *Stanford Social Innovation Review*. The title says it all: *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 March 2013, activist and fundraiser Dan Pallotta appeared in a “lively and irreverent” TED Talk: *The way we think about charity is dead wrong*. He railed against overhead; it went viral. Mr. Pallotta called out 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 opens: “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, they explained in more detail, “to other factors of nonprofit performance: transparency, governance, leadership, and results....”

Banish the Overhead Myth

Respected commentators had taken the crucial first step: shedding daylight on the preposterous notion that a fairy godmother creeps in after office hours and makes all of the “taboo” expenses of real-world nonprofits miraculously evaporate overnight. See, for example: [Why Is Overhead Expected in the For-Profit Sector, but a Punishable Offense for Nonprofits?](#) and [How Individuals Can Help with the Overhead Myth Smackdown.](#)

The next step (after educating nonprofit personnel as well as fundraisers and grant writers) is also important: If donors, funders, and government grantmakers don’t also understand the insidious cruelty of The Overhead Myth, then there will be no progress. The newly enlightened nonprofits will still have to beg and plead for scraps to keep out of that Gregory/Howard “nonprofit starvation cycle.”

Compounding the Overhead Myth dilemma is that there is no single standard percentage, no magic number across the board, that funders understand as so-called “acceptable” overhead. Of course, “(s)ome foundations, happily, will advertise what they see as an ideal ratio of general operating expenses to overall expenses.” But this is “unfortunate because every nonprofit operates a little bit differently. Some are run by volunteers and have little to no overhead expenses. Others may have a lot of general operating expenses for one reason or another. It’s simply impractical to apply a single standard to every single nonprofit out there.”

The good news is there’s progress by organizations determined to assault the Overhead Myth. The better news is that “more and more foundations are open to funding general operating expenses.”

Conclusion

Coming soon, we’ll focus on some groundbreaking thinking – and action – by leading funders including the Ford Foundation, which recently announced a dramatic new grantmaking focus on general operating support.

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