

# Debunking the Myths of Charity Overhead

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# Audit of charities encounters resistance

Nineteen of Canada's 100 top charities would not release full financial statements, an independent agency says

As CRA audits charities, there's a scandal within a scandal

## Major Cancer Charities Shut Down Amid \$187 Million Donation Scam

Left-leaning think tank accuses Canada Revenue Agency of only targeting left-leaning charities

News / Investigations

## Charities admit fundraising mess

Two prominent Canadian charities – Sick Kids Foundation and World Vision Canada – have admitted to using a discredited fundraising technique and are moving swiftly to clean up their act.

# Charity Overheads Worry Canadian Donors

## Grading Canadian charities: Does your donation go where you think?

## Cancer Society spends more on fundraising than research

**TRENDING** Paris attack | 'Jihadi John' | Kirsty Duncan | Trudeau | Trans-Pacific Partnership | Metrojet

Tides, critics clash over charity's claims of transparency

The Great British rake-off... what really happens to the billions YOU donate to charity: Fat cat pay, appalling waste and hidden agendas

# Learning Outcomes

- Identifying the popular **myths and counter-arguments** on charity overhead
- Understand the **impact** (good and bad) of low overheads rates
- Have the tools for an **informed discussion** with the public, board members, media and others on the topic

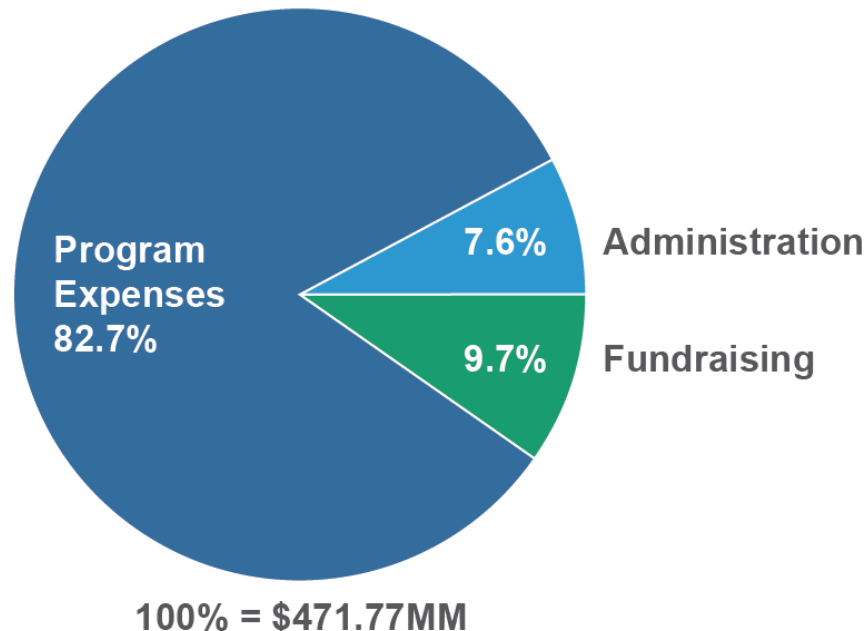
# Learning Outcomes

- Review the **data-driven, evidence-based facts**



# What is Overhead?

- The amount of total receipts spent on administration and fundraising, in contrast to the amount spent delivering services.



# What is Overhead?

- The interpretation of overhead is at odds



## CHARITIES

Overhead is a critical investment, necessary to generate future income, pay qualified staff and ensure the future sustainability of the organization

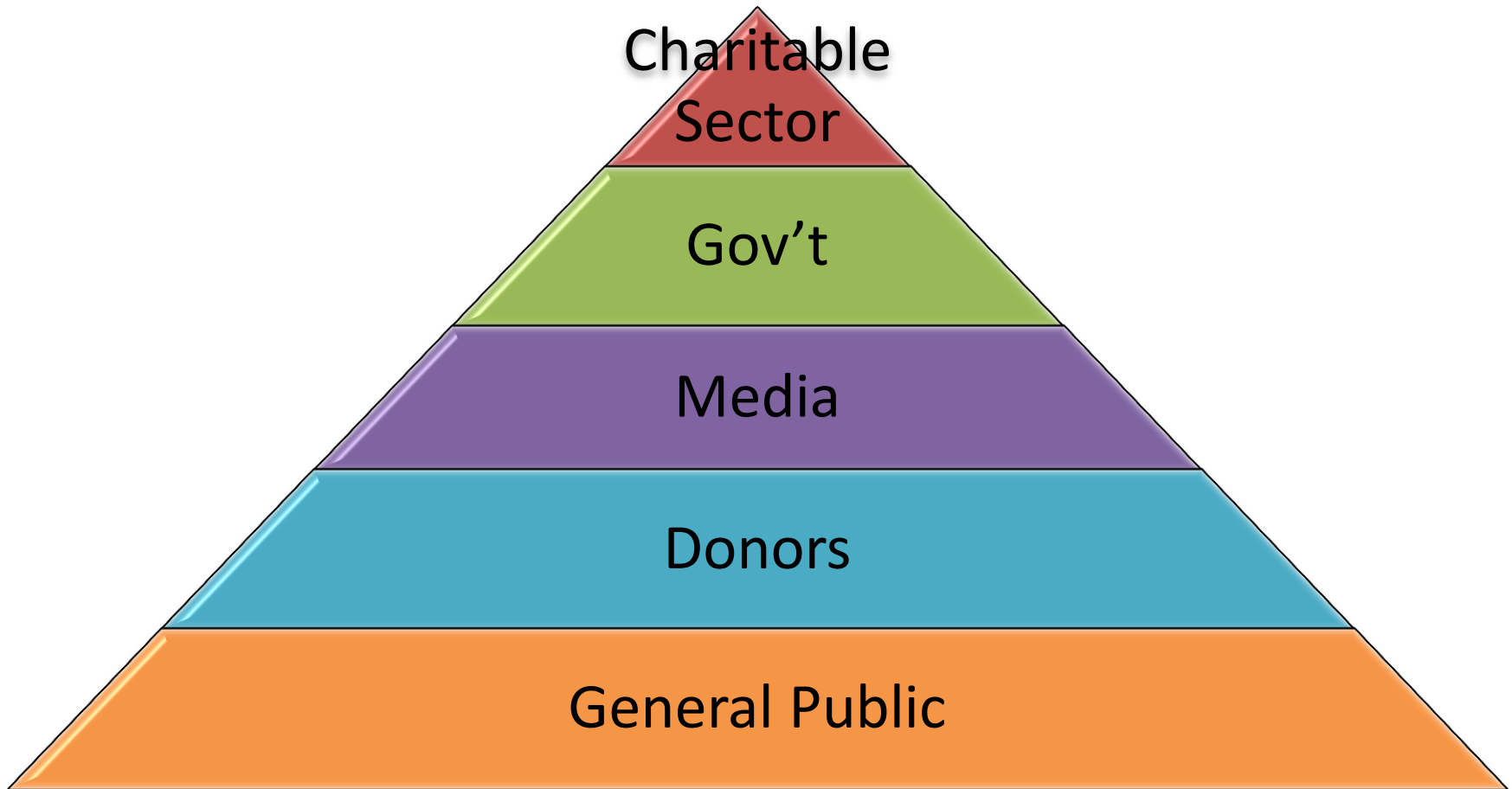
## DONORS

Overhead is the amount of their donation directed away from the cause and lessens their impact

# What is Overhead?

- Low charity overhead is interpreted as a **proxy for effectiveness and efficiency**
- Those charities with lower overhead rates are perceived as being better positioned to **achieve their mission**
- **It's not only donors who have adopted this thinking!**

# What is Overhead?

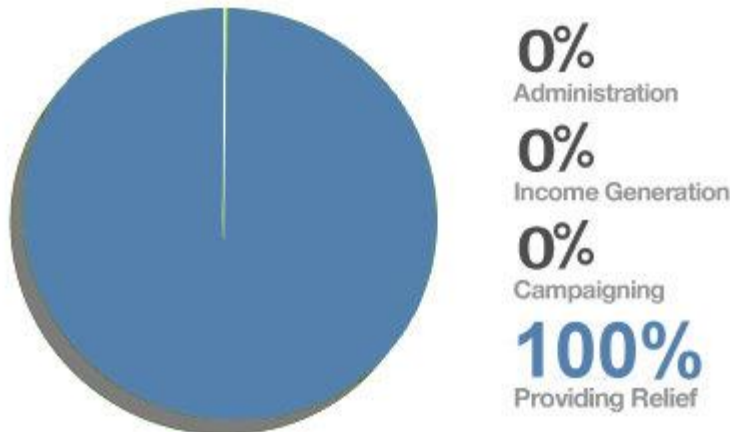




# What is Overhead?

- We have taught the public that overhead is evil

## How your Donations are Spent



**GOOD OR EVIL**  
Who Decides?

# Myth #1

**Charities who invest less in overhead and more in programs have more impact on their mission**



# Myth #1: Impact

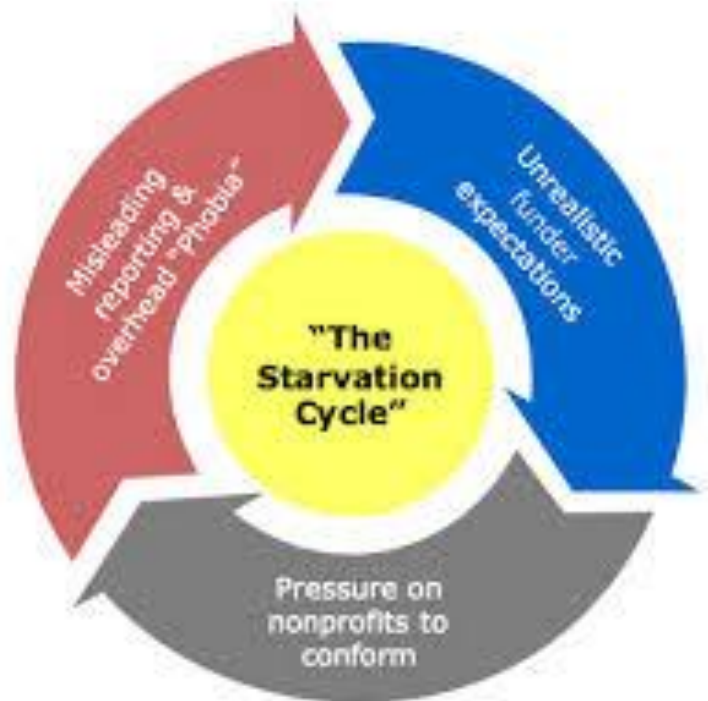
**Myth:** Charities who invest less in overhead and more in programs have more impact on their mission

**Truth:** The pressure to keep overhead low has meant charities under-invest in critical infrastructure which destabilizes their ability to successfully deliver on their mission

# Myth #1: Impact

## The Facts

Ann Goggins: *The Nonprofit Starvation Cycle*



- 56% of Executive Directors reported plans to reduce overhead, even though it jeopardized their charitable mission
- Majority of grant funders did not allow recipient charities to designate sufficient funds to cover the overhead costs associated with administering the grant
- Accelerated a talent crisis with insufficiently trained staff

# Myth #2: Impact

## The Facts

### *The Nonprofit Overhead Cost Project*

- Massive financial misreporting
  - EDs completing tax filing with no training
- Concerning lack of investment in technology
  - Suicide prevention hotline → callers on hold
- Rampant hiring of unqualified staff
  - Leave for better-paying roles once qualified



# Myth #1: Impact

## The Facts

The push for excessively low overhead can do more harm than good. It misses its



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on overhead.

(Giving Evidence)

# Myth #2: Measurement

**Overhead is a good way to compare charities  
because it gives us a standard measure  
of their impact**



# Myth #2: Measurement

**Myth:** Overhead is a good way to compare charities because it gives us a standard measure of their impact

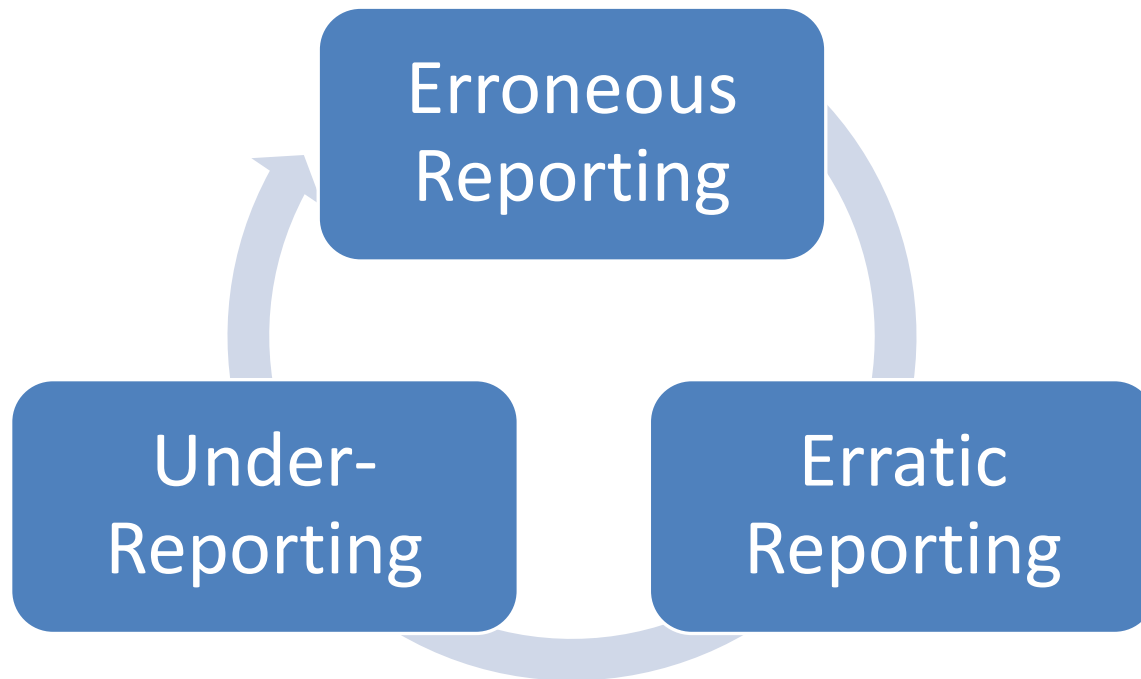
**Truth:** Overhead is a flawed measurement of charity impact because it is inconsistent, inaccurate and defective.



# Myth #2: Measurement

## The Facts

- CRA data from Canadian charities revealed:



# Myth #2: Measurement

## The Facts

### Erroneous Reporting

- Quantitative errors
  - Lack of financial expertise
  - Complexity of CRA requirements

### Erratic and Under-Reporting

- Qualitative errors
  - No standard definitions of costs from CRA



# Myth #2: Measurement

## The Facts

### The Nonprofit Overhead Cost Project

- 37% of nonprofits with at least \$50,000 in revenue reporting zero fundraising costs
- 13% claimed zero management costs
- Salaries represent largest single cost, but many nonprofits did not report or attribute salary cost accurately
- **Conclusion: widespread underreporting in costs given high likelihood that statistics are false**

# Myth #2: Measurement

## The Facts

### More evidence of mis-reporting:

- 5% of Directors of Fundraising of the 500 top charities in the UK claimed zero overhead expenses
- Charities claiming no overhead → Small print said contributions from “founding supporters” cover administration and fundraising costs



# Myth #2: Measurement

## The Facts

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# Myth #3: Fundraising

**If a charity invests less in fundraising in any given year, it means it can invest more in its programs and be more effective**



# Myth #3: Fundraising

**Myth:** If a charity invests less in fundraising in any given year, it means it can invest more in its programs and be more effective.

**Truth:** Fundraising costs can increase a charity's overhead ratio and at the same time increase its effectiveness on its mission.

# Myth #3: Fundraising

Charity A	Charity B
Revenue: \$50,000	Revenue: \$200,000
Cost: \$10,000	Cost: \$100,000
Net Return: \$40,000	Net Return: \$100,000
Overhead: 20%	Overhead: 50%

“If a charity wished to maximize the rate of return on its fundraising investment, it would choose the first budget: if it cared about maximizing the resources for providing charitable services, it would choose the second.”



# Myth #3: Fundraising

## The Facts

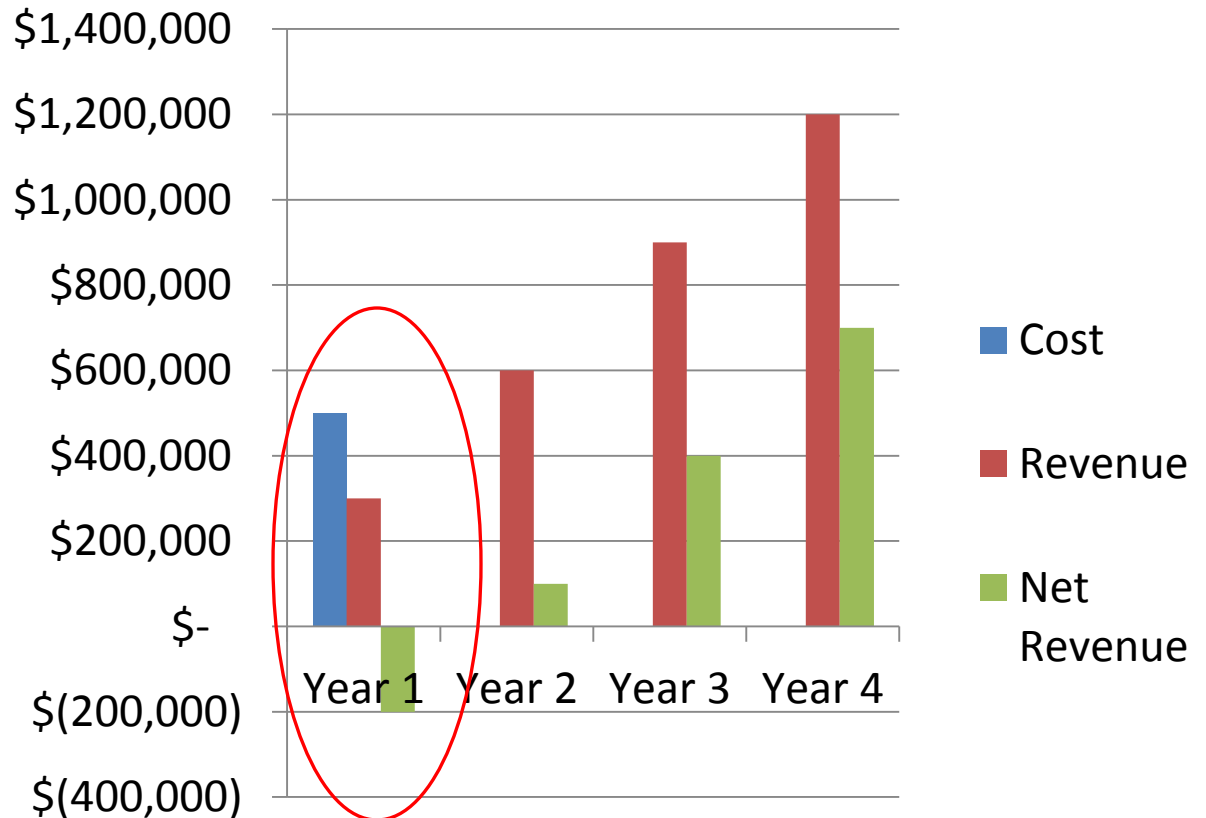
- Overhead can be a determinant of the charity's life-cycle and fundraising strategy, not its effectiveness or impact
- Most noticeable when a charity is in high-donor acquisition mode
- Overhead does not account for multi-year strategies



# Myth #3: Fundraising

## The Facts

- Acquire 1000 donors in Year One at a cost of \$500 each
- They give \$300 per year over 4 years (Total \$1200)



# Myth #3:

## The Facts

- Fundraising fuels most charities' ability to deliver on their mission but donors have very little understanding and respect for its necessity
- 85% of donations to charity are the result of a fundraising solicitation

# Myth #3: Fundraising

## The Facts

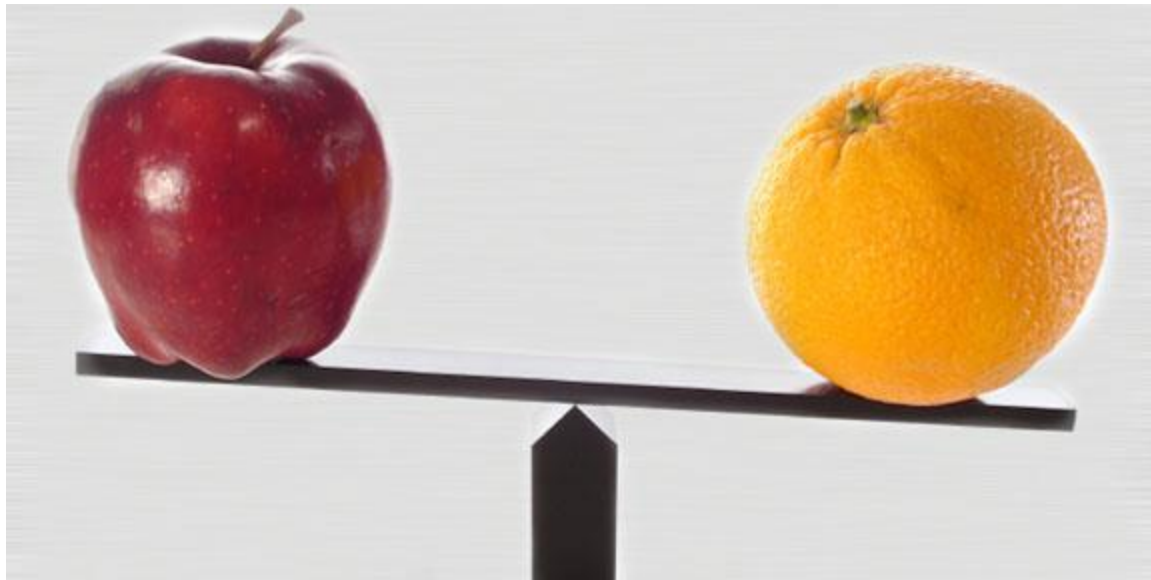
Overhead ratios do not account for the  
complexities of  
charitable  
delivery



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# **Myth #4: Sub-Sector Effect**

**Overhead is a universal measurement for charity impact, regardless of the type of charity, its cause or any other factor**



# Myth #4: Sub-Sector Effect

**Myth:** Overhead is a universal measurement for charity impact, regardless of the type of charity, its cause or any other factor.

**Truth:** Sub-sector variations can significantly impact overhead ratios, making them irrelevant as an across-the-board measure of impact.

# Myth #4: The Sub-Sector Effect

## The Facts

- The cause impacts overhead



# Myth #4: The Sub-Sector Effect

## The Facts

- The cause impacts overhead





# Myth #4: The Sub-Sector Effect

## The Facts

- The cause impacts overhead



# Myth #4: The Sub-Sector Effect

## The Facts

- Other factors impacting overhead rates

Large

Small

Young

Old

# Myth #4: The Sub-Sector Effect

## The Facts

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# What's the Alternative?

1. **Adjust Expectations**
2. **Measure and Communicate Impact**
3. **Develop a Voice for the Sector**
4. **Self-Regulation**



# What's the Alternative?

## Adjust Expectations

- **Government**

- 51% of all funding to the sector is from gov't
- CRA removes nonsensical fundraising guidance (e.g. maximum of 35%)
- Government funding builds in costs of reporting and accountability



# What's the Alternative?

## Adjust Expectations

- **Donors, Media and Others**
  - The sector must communicate the drawbacks of overhead not perpetuate them
  - Sector must invest in education

95% of people agree that charities should  
invest no funds in fundraising  
(Impact Coalition)

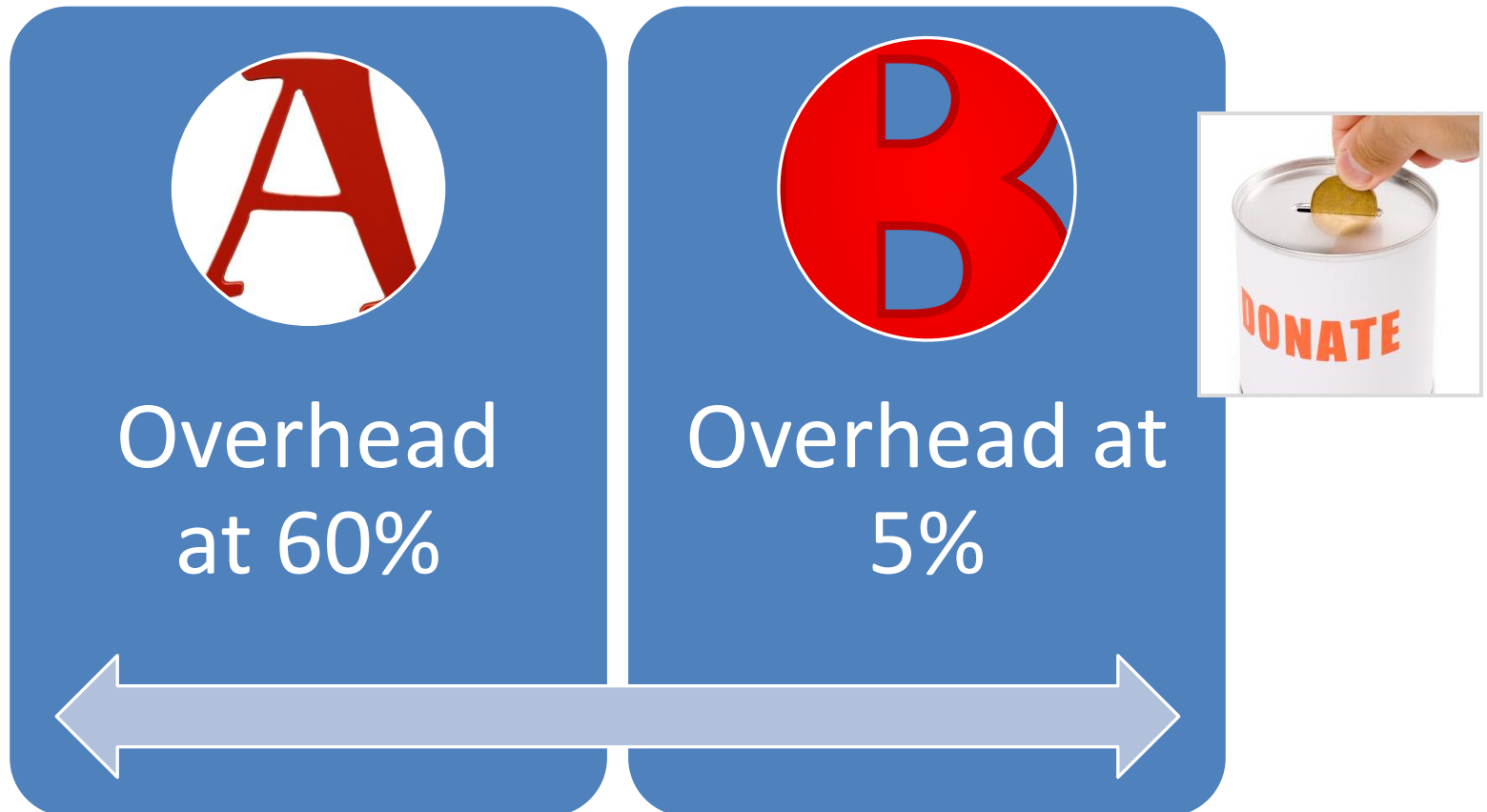
# What's the Alternative?

## Measure and Communicate Impact

- Overhead is addressing the **vacuum of information** on charity impact
- Research showed that when donors are presented with both overhead and information about the charity's impact and outcomes, **donations increase to those charities perceived as more effective in achieving their outcomes.**

# What's the Alternative?

## Measure and Communicate Impact





# What's the Alternative?

## Measure and Communicate Impact



A

Overhead at 60%  
Saved 5 Lives

B

Overhead at 5%  
Saved 2 Lives



# What's the Alternative?

## Measure and Communicate Impact

- Imagine if CRA asked charities to report on overhead and their impact!
- But *ease of evaluability* can bias donors

“Charity X spent 30% on overhead and Charity Y spent 25%”

“Charity X influenced a government policy so 1000 more people will get access to affordable housing. Charity Y provided meals to 10,000 homeless and food insecure people

# What's the Alternative?

## Measure and Communicate Impact

- *Ease of evaluability*



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#### TOP CHARITIES

- Against Malaria Foundation
- GiveDirectly
- Schistosomiasis Control Initiative
- Deworm the World Initiative
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## Canada's top-rated charities

Photo gallery: Charities that earned an 'A+' grade in MoneySense's annual Charity 100 ranking

Nov 20, 2014 MoneySense staff  15

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# What's the Alternative?

## Develop a Voice for the Sector

- US and Canadian governments are the largest funders of the sector
- Legal defense fund → Charity Defense Council
- A legal defense fund provides charities with the ability to collectively advocate against policies that might inadvertently and negatively impact them

# What's the Alternative?

## Self-Regulations

- 72% agree they would trust more in a charity's fundraising if the charity was accountable to an independent regulatory body



# What's the Alternative?

## Self-Regulations

- AFP Code of Ethical Principles
- Donor Bill of Right
- Imagine Canada Code of Ethics
- Imagine Canada Standards Program



# In Summary....

**Overhead as a measure of charity effectiveness is ineffective.**

## **1. It's inconsistent**

- Does not account for differences in organizations
- Calculated differently for different charities



## **2. It's misleading**

- Data errors
- No standard reporting
- Does not account for short vs. long-term strategies



## **3. It's harming charities**

- Low overhead vs. impact
- Staff, infrastructure, growth



# In Summary...

## One last thought....

“With overhead restrictions looking to redress the evils of charity ineffectiveness, the irony is not lost that overhead as the very measure of charity effectiveness is ineffective itself”





# Thank you & Questions

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