



The Overhead Debate

June 2014

Indirects. Overhead. General Op. No matter what you call it, these are the funds you need to keep the lights on and draw payroll. The debate about them came to forefront last year with Dan Pallotta's [TED](#) talk, Indiana University's [The Non-Profit Starvation Cycle](#), and more recently with [The Overhead Myth](#), a letter to the donors of America co-signed by the CEOs of Charity Navigator, BBB Wise Giving Alliance, and Guidestar. Each debunks the theory that a non-profit spending less money on operations means they have more money for the cause. That couldn't be farther from the truth. Most non-profits are "starved" - unable to grow, unable to pay the best talent what they are worth, unable to market their cause, unable to spend more on fundraising - all because donors look for non-profits with low overhead and non-profits fear they will lose donors if they appear to spend too much on operations. The reality is that without appropriate general operating support, an organization cannot invest in itself, which, in turn, will result in less resources, less awareness, and less money for its cause.

How can you break the cycle? The main thing is to change your donors' perception of what it costs to fulfill your mission. June 2014

To rectify this, a [Bridgespan](#) report says to start by figuring out what each of your programs REALLY cost - that includes the electric bill and the cost of health insurance for staff, as it relates to that individual program. Full transparency is key, as under reporting, or incorrect reporting, just continues to perpetuate a funder's misunderstanding of what your work really costs. Don't succumb to the pressure of donor expectations or they will continue to expect you to do more, with less, and in the end it'll be your beneficiaries that are hurt the most.

Another way to demonstrate the importance of overhead is to change the donor mindset, by helping them to look at outcomes, not cost. Inferior investments in infrastructure result in inferior outcomes. Frame the conversation in a way that

shows the donor how their money, even when used for overhead, impacts your beneficiaries. In other words, what are the financial resources you need to offer better services, better educational experiences, or better whatever to your constituents? You're a regional conservation lab - how does staffing a conservator and buying equipment and materials not only help your clients, but those they serve? If you think this way, suddenly overhead is not so unimportant; it becomes a critical part of what you do.

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