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.

We ask you to pay attention to other factors of nonprofit performance: transparency, governance, leadership, and results. For years, each of our organizations has been working to increase the depth and breadth of the information we provide to donors in these areas so as to provide a much fuller picture of a charity’s performance.

That is not to say that overhead has no role in ensuring charity accountability. At the extremes the overhead ratio can offer insight: it can be a valid data point for rooting out fraud and poor financial management. In most cases, however, focusing on overhead without considering other critical dimensions of a charity’s financial and organizational performance does more damage than good.

In fact, many charities should spend more on overhead. 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. These expenses allow a charity to sustain itself (the way a family has to pay the electric bill) or to improve itself (the way a family might invest in college tuition).

When we focus solely or predominantly on overhead, we can create what the *Stanford Social Innovation Review* has called “The Nonprofit Starvation Cycle.” We starve charities of the freedom they need to best serve the people and communities they are trying to serve.

If you don't believe us—America’s three leading sources of information about charities, each used by millions of donors every year—see the back of this letter for research from other experts including Indiana University, the Urban Institute, the Bridgespan Group, and others that proves the point.

So when you are making your charitable giving decisions, please consider the whole picture. The people and communities served by charities don’t need low overhead, they need high performance.

Thank you,

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Jacob Harold
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Ken Berger
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thebestandworstwaytopickacharity
Research shows that the overhead ratio is imprecise and inaccurate:

- 37% of nonprofit organizations with private contributions of $50,000 or more reported no fundraising or special event costs on their 2000 Internal Revenue Service (IRS) Form 990.
- Nearly 13 percent of operating public charities reported spending nothing for management and general expenses.
- Further scrutiny found that 75 percent to 85 percent of these organizations were incorrectly reporting the costs associated with grants.

But still, Americans over-emphasize the number and prioritize it over demonstrated success:

- 62% of all Americans believe the typical charity spends more than it should on overhead.

The “Overhead Myth” persists despite evidence that investments in overhead facilitate better nonprofit performance:

- A 2001 survey found that over half of adult Americans felt that nonprofit organizations should have overhead rates of 20 percent or less; nearly four in five felt that overhead should be held at less than 30 percent. In fact, those surveyed ranked overhead ratio and financial transparency to be more important attributes in determining their willingness to give to an organization than the demonstrated success of the organization’s programs.

Underinvesting in overhead creates a range of negative outcomes which undermine quality and sustainability:

<table>
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<tr>
<th>Description of Underinvestment</th>
<th>Consequences</th>
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<tr>
<td>Limited/no staff for administrative roles (e.g., finance, development, operations)</td>
<td>Limited ability for organization to manage/monitor finance, development, etc.</td>
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<td>Limited investment in staff training and development</td>
<td>Increased turnover among staff, particularly those looking for ongoing professional development</td>
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<td>Limited ability to continually enhance skills of employees</td>
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<td>Limited investment in staff training and development</td>
<td>Difficulty building senior team from within</td>
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<td>Inexperienced staff for administrative roles</td>
<td>High turnover</td>
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<td>Poor IT infrastructure</td>
<td>Poor work quality</td>
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<tr>
<td>Poor donation management systems</td>
<td>System crashes, downtime</td>
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<tr>
<td>Limited ability to track donors and fundraising progress</td>
<td>Loss of data/information, limited information sharing</td>
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<td>Limited ability to target fundraising</td>
<td>Inability to track beneficiary outcomes, particularly across sites</td>
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Primary Sources:

- The Nonprofit Starvation Cycle
  Stanford Social Innovation Review, Fall 2009
- Getting What We Pay For: Low Overhead Limits Nonprofit Effectiveness
  Center on Nonprofits and Philanthropy, Urban institute Center on Philanthropy, Indiana University
- What We Know About Overhead Costs in the Nonprofit Sector
  Center on Nonprofits and Philanthropy, Urban institute Center on Philanthropy, Indiana University
- Nonprofit Overhead Costs: Breaking the Vicious Cycle of Misleading Reporting, Unrealistic Expectations, and Pressure to Conform
  The Bridgespan Group, April 2008
- Where’d My Money Go?
  Americans Perceptions of the Financial Efficiency of Nonprofit Organizations
  Grey Matter Research, 2008
- Good Charities Spend More on Administration than Less Good Charities Spend
  Giving Evidence, May 2013
- Management and General Expenses: The Other Half of Overhead
  The Nonprofit Quarterly, Spring 2003
- The Worst Way to Judge a Charity
  Los Angeles Times, April 2012
- Ratio Discrimination in Charity Fundraising: The Inappropriate Use of Cost Ratios Has Harmful Side-Effects*
  Voluntary Sector Review, March 2010 **Behind pay wall