

PAY WHAT IT TAKES CHARITY CAMPAIGN REPORT

WE NEED
to talk differently about
OVERHEAD

ACKNOWLEDGEMENT OF COUNTRY

The Pay What It Takes Charity Consortium Australia acknowledges the Traditional Owners of the places in which we live and work. We recognise and respect the enduring relationships they have with their lands and waters, and we pay our respects to their Elders, past and present.

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Supported by



EXECUTIVE SUMMARY

The Pay What It Take Charity Consortium Australia (PWIT Charity Consortium) is leading a transformative campaign that will work with Australian Not-For-Profits (NFP) to address the critical challenge of the crucial but often underfunded area of overhead costs. This report, prepared by Integrity on behalf of the PWIT Charity Consortium Australia, synthesises extensive research, including a literature review, analysis of charity communications, and surveys of fundraisers and donors, to provide a comprehensive overview of the current landscape and actionable insights for the charity sector.

Australian NFPs make a significant economic and social impact, contributing to 8.5% of the nation's GDP and employing over 1.3 million people.¹ Despite their invaluable work, many NFPs struggle financially, primarily due to insufficient funding of overhead costs, leading to a pervasive "Non-Profit Starvation Cycle."² This cycle hampers NFPs' ability to invest and build necessary infrastructure, innovate, and sustain their impact, necessitating a strategic shift in how overhead costs are communicated and funded.

The following key insights are provided:

Insight 1: While awareness of the need for increased investment in overhead is high among Australian fundraisers, thanks in part to advocacy by figures like Dan Pallotta, there remains a gap in informed and actionable guidance for NFPs to address this issue.

Insight 2: Research reveals that donor attitudes towards overhead costs may be more nuanced than previously thought, with many donors willing to support overhead costs if they understand how these investments lead to greater effectiveness, impact and outcomes.

Insight 3: The report highlights the need for NFPs to adopt more strategic and positive framing of overhead costs in their communications. This includes using terms that resonate better with donors, providing more detailed breakdowns of costs, and linking overhead investment directly to impact and outcomes.

Insight 4: Although overseas findings indicate a positive correlation, there is a critical need for localised research to demonstrate the positive correlation between overhead investment and organisational growth, providing NFP leaders with the local evidence needed to advocate for more strategic resource allocation.

1 Australian Charities and Not-for-profits Commission (ACNC), Australian Charities Report 2018, Australian Bureau of Statistics (ABS), 2019, accessed 9 February 2024.

2 AG Gregory, D Howard, 'The nonprofit starvation cycle', Stanford Social Innovation Review, 2009.

The report finishes with a series of calls to action:

Internal Calls to Action: By using insights and recommendations from this report, fundraisers can create a better understanding of overhead costs and encourage the support needed to reframe the narrative and achieve industry impact. Where appropriate, fundraisers are encouraged to engage with their executive and board.

External Calls to Action: NFPs should reframe their public messaging on overhead costs, emphasising investments in efficiency, effectiveness, and impact, and updating visual representations of spending to align with donor preferences.

This report serves as a foundational document for the PWIT Charity Consortium Australia's pilot campaign, launched at the 2024 FIA Conference – Australia's national fundraising conference. Its findings and recommendations aim to catalyse a sector-wide shift towards more sustainable funding models that recognise the true cost of creating impact.

CONTEXT

Not-For-Profits are an essential part of Australian society and play an indispensable role in ensuring community wellbeing, especially for our most marginalised.

Not-For-Profits also contribute significantly to our economy. Their “total economic contribution alone is equivalent to 8.5% of Australia's GDP; they employ more than one in ten employees (1.3 million people); they are the second largest employing industry after health care and social assistance; and they engage over three million volunteers.”³

But despite Not-For-Profits' invaluable work, Social Ventures Australia and the Centre for Social Impact's (CSI) report (Paying What It Takes) analysed the financial health of over 16,000 charities and revealed many Not-For-Profits are struggling, operating with thin or no margin even before the COVID crisis. Charities are operating with limited reserves and many are worried they won't be able to provide services in the current economic climate.⁴ Many charities lack the financial buffer necessary to innovate, evolve and, in some cases, even operate — without severe constraints.

A major cause of financial instability is insufficient funding of Not-For-Profits' overhead costs, referred to in this report as “overhead”. This includes investments such as financials, people and processes, information technology, communications, fundraising, digital marketing, data reporting, and training capabilities.

Research carried out in the US⁵ has highlighted that inaccurate views of how much overhead is needed to run a Not-For-Profit has forced organisations to underrepresent these costs. This leads to a continued cut back on organisational infrastructure to ensure there is enough funding for programs to remain viable. For example, Not-For-Profits are forced to reduce fundraising, therefore are left underfunded. This in turn leads to a further reduction in fundraising which leads to further underfunding.

This has been dubbed the “Non-Profit Starvation Cycle” by the Stanford Social Innovation Review.

This ‘Non-Profit starvation cycle’, involves funders having inaccurate expectations of how much overhead is needed to run a Not-For-Profit, which means these organisations underrepresent their costs. This leads to a sector starved of the necessary core funding required to create resilient not-for-profits delivering long-term impact on complex social issues.

Social Ventures Australia and the Centre for Social Impact's research identified that the same ‘Non-Profit Starvation Cycle’ that exists in the US, is also present in Australian Not-For-Profits⁶.

3 Social Ventures Australia and the Centre for Social Impact (2022) Paying what it takes: funding indirect cost to create long-term impact.

4 Social Ventures Australia (SVA) and the Centre for Social Impact (CSI), Partners in Recovery Series, n.d.

5 AG Gregory, D Howard, ‘The nonprofit starvation cycle’, Stanford Social Innovation Review, 2009.

6 Social Ventures Australia and the Centre for Social Impact (2022) Paying what it takes: funding indirect cost to create long-term impact.

DEFINITIONS

Overhead costs

There are many varied definitions of ‘overhead costs’ and ‘indirect costs’.

We define overhead costs, or indirect costs, as costs incurred by an organisation that cannot be directly and easily attributed to a specific project. Indirect costs include areas such as financials, people and processes, information technology, communications, fundraising, digital marketing, data reporting, and training capabilities.

For simplicity, throughout this report we refer to overhead costs. However, it should be noted that this research discovered that neither overhead costs nor indirect cost are terms often used by the wider public.

Charities, Not-For-Profit and social purpose organisations

While these terms are often taken to be synonymous, we have used them with specific meaning in this report.

- ‘Charities’ are organisations registered with the ACNC and have a specific charitable purpose.
- ‘Not-For-Profits’ are a broader group, encompassing any organisation that has declared itself a not-for-profit entity in its constitution. All charities are Not-For-Profits, but not all Not-For-Profits are charities.
- ‘For purpose’ is broader again, encompassing organisations like some social enterprises that exist to fulfil a social purpose, regardless of whether they are Not-For-Profits.

The Pay What It Takes Coalition

A coalition formed in 2021 in Australia by individuals and organisations working collaboratively to influence philanthropic funders to “pay what it takes to create impact.”

Pay What It Takes Charity Consortium Australia

Building on the work of the PWIT Coalition, this is a Consortium of 15 fundraisers from some of Australia’s largest charities and agencies serving the Not-For-Profit sector. This Consortium was established in 2023 in Australia in response to the need for a fundraising focused lens on addressing the challenges of the “pay what it takes to create impact” movement.

THE PWIT CHARITY CONSORTIUM AND THE CASE FOR CHANGE

‘Pay What It Takes’ movement in Australia

The issue of indirect cost underpayment has been debated in the US over the past three decades. In Australia the movement is newer but has started gaining momentum in the last three years.

In 2021, The Pay What It Takes Coalition was formed by individuals and organisations working collaboratively to address the growing momentum in Australia. In its first stage, this group sought to define the problem, share insights and spread awareness. In March 2022 Social Ventures Australia and The Centre for Social Impact launched their ‘Paying What It Takes’ report⁷ that reviewed over 16,000 Australian Not-For-Profits, and revealed a sector stretching every dollar. Many Not-For-Profits lacked the financial buffer necessary to operate or innovate without severe constraints.

The Pay What It Takes Coalition’s purpose is now focused on influencing philanthropic funders to “pay what it takes to create impact” – i.e. to recognise and value the true cost of creating impact, leading to increased financial sustainability, effectiveness, and equity within the for-purpose sector.

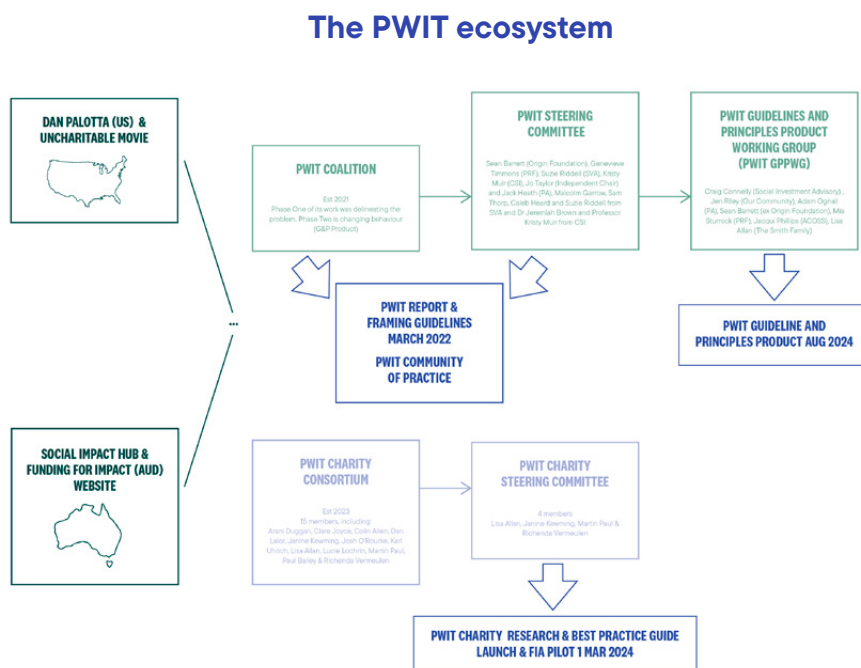


Figure 1: Developed to explain the Pay What It Takes ecosystem created 5/12/23.

7 Social Ventures Australia and the Centre for Social Impact (2022) Paying what it takes: funding indirect cost to create long-term impact.

Australian fundraisers united for change

The PWIT Charity Consortium Australia was established in 2023 by a group of Australian fundraising leaders who saw the impacts of the 'Non-Profit Starvation Cycle'⁸ and collectively wanted to take action to address it.

The PWIT Charity Consortium Australia is currently made up of 15 fundraisers from some of Australia's largest charities and agencies serving the Not-For-Profit sector.

Over a period of six months in 2023, facilitated through three workshops, the PWIT Charity Consortium Australia identified Not-For-Profit communications as the focus area that fundraisers could address to shift attitudes and behaviours amongst key internal stakeholders (CEO & Board) and external stakeholders (Donors, Government, Funding Bodies).

The Consortium's unique role is:

"To help create long-term sustainability of Not-For-Profits through shifting the public narrative and changing societal perceptions of minimising the cost to deliver services (otherwise known as 'overhead costs') – so that there is understanding that measurable impact and outcomes is the key measure of a Not-For-Profit's effectiveness, and not low indirect costs."

They share the belief that together, fundraisers can change practice from *inside* the Not-For-Profit sector. Members of the Consortium (and fundraisers across the sector) are in a unique position to affect change. They are close to donors, boards, CEOs and executives – allowing fundraisers to change perceptions of overhead costs within their organisation and amongst the wider public.

8 AG Gregory, D Howard, 'The nonprofit starvation cycle', Stanford Social Innovation Review, 2009.

WHY THIS REPORT EXISTS

To make recommendations to the wider Not-For-Profit industry, a discovery process was required to understand the Australian Not-For-Profit landscape from within charities. Though a lot of research had been carried out internationally, it was clear that there were large research gaps in relation to the Australian market.

For example, there was no industry wide data available on how fundraisers approach overhead communications.

This report was commissioned and made possible by a generous donor to fill these research gaps and inform the pilot campaign aimed to provide fundraisers evidence based recommendations to implement collectively and with consistency across the sector.

METHODOLOGY

AN OVERVIEW OF THE PROCESS

Due to the complex nature of the issues around overhead costs and the many stakeholders involved in addressing them, a thorough discovery process was needed in order to create this report.

A three step methodology was implemented:

1. Reviewing and understanding the gaps in Australian research

Following discovery, a series of hypotheses were developed to better understand Australian fundraisers, donors and what viable actions could be undertaken.

2. Undertake additional research

Both secondary and primary research was undertaken. Secondary research including relevant research and literature from the Australian Not-For-Profit landscape. Primary research included a focus group with fundraisers and quantitative surveys of fundraisers and donors.

3. Structuring & synthesising data

The research was then collated and synthesised to determine key insights and recommendations to provide practical ways in which fundraisers could begin to change the narrative.

UNDERSTANDING RESEARCH GAPS

Understanding fundraisers' capability for change

First, it was important to understand fundraisers' relationship to the issue of overhead cost and their desire/ability to create a change in perceptions. In particular:

1. *Are Australian fundraisers aware of Pay What It Takes or similar movements both locally and internationally?*
2. *How do Australian fundraisers approach communicating overhead costs? Are there challenges with internal and external stakeholders?*
3. *Do fundraisers desire change and do they have the capability to influence charity communications to create change?*

Understanding donor perceptions

Second, it was important to understand donors' perceptions of overhead costs. Individual organisations had carried out research on their, yet more sector wide data was needed. Research aims included:

1. *Does the Australian public understand overhead costs?*
2. *How much does the Australian public care about overhead costs, what are their expectations, and what language are they using?*

Understanding viable communication recommendations for fundraisers

Finally, it was important to understand what communication recommendations should be made to help fundraisers shift perceptions of overhead costs. There was no point in making recommendations that would be impossible or impractical for fundraisers to implement. Therefore the following questions needed to be answered:

1. *What is currently being communicated about overhead costs by Australian Not-For-Profits?*
2. *Based on donor insights, what communications need to shift, change, or be removed in order to create positive change?*
3. *What collective action and recommendations are achievable in the short-term that fundraisers will agree to and can implement?*

PRIMARY AND SECONDARY RESEARCH

A wide variety of secondary sources were examined in order to ensure a detailed understanding of the Australian Not-For-Profit landscape. This secondary research was complemented by both qualitative and quantitative primary research that tested hypotheses and examined the perception and use of overhead costs more deeply across both fundraisers and donors. The aim of this research was to provide up-to-date, robust and statistically valid data that could be used to inform recommendations to fundraisers, to be delivered in the form of a downloadable guide.

Literature Review

The literature review examined 10 reports from external organisations, all carried out in the last 10 years. These included:

- Social Ventures Australia and CSI Paying What It Takes report (2022)
- McCrindle Australian Communities report (2021)
- More Strategic Cost of Living Crisis research (Nov 2023)
- More Strategic additional research on PWIT (2023)
- More Strategic whitepaper (2013)
- More Strategic Sustainability report (2017)
- Common Cause Analysis report (2023)
- Humentum Breaking the Starvation Cycle report (2022)
- Red Cross Qualitative Debrief report (2023)
- The Smith Family Financial Survey (2021)

The impact and effectiveness of overhead campaigns carried out in other territories was also examined, focusing on the following:

- “The Overhead Myth” campaign
- “I am Overhead” campaign
- Uncharitable movie
- Dan Pallotta’s Ted Talk: The way we think about charity is dead wrong

Review of charity public facing communications, website analytics & search trends

As well as a Literature Review, the Consortium examined the websites and annual reports of a sample of 19 Australian charities to understand how they approached overhead. These 19 Not-For-Profits ranged from small to large (as categorised by ACNC) and included a diversity of cause types – from domestic social services, animal welfare, through to international aid and development.

Through the analysis of Google Analytics 4 (GA4) the donor on-site behaviour of five large (anonymised) Not-For-Profits was studied. This included reviewing pathways to donation (i.e. which website pages a donor reviewed *before* making a donation) as well as website traffic viewing the annual report (where the majority of Not-For-Profits display information on their overhead costs).

Keyword analysis on Google Trends identifies keywords people are using and what topics they're researching and/or searching for. Analysis of Not-For-Profit related search data was carried out to better understand the prevalence of relevant overhead search behaviour.

Focus Group Research

A focus group of the 10 PWIT Consortium Australia members was carried out to explore Australian fundraisers' experience and perception of the role of overhead in their organisations, whether they identified with the "starvation cycle", and what solutions they believed would be feasible.

Survey Research

The secondary and focus group research was complimented with a number of surveys to both fundraiser and donor audiences.

Fundraisers

In January 2024, a survey was sent to Fundraising Institute of Australia members to better understand the concerns of the wider Fundraising community.

Of the 95 respondents, this was the breakdown of positions held:

- 35% Executive / Director
- 37% Department Lead
- 25% Fundraising Manager
- 14% Fundraising Coordinator

Donors

It was important to include the donor voice in the analysis in seeking to clarify donor perceptions of overhead. The donor survey sought to compare attitudes towards overhead with giving behaviour.

A donor survey was distributed to three audience groups. Donor audiences of two Australian charities (The Smith Family and The Salvation Army) and a public panel resulting in 1,233 responses. The survey consisted of questions about overhead costs sentiment, language, past behaviour and graphics that demonstrate overhead costs.

	Audience	Respondents
The Smith Family	A selection of active donors	292
The Salvation Army	A selection of active donors	773
Glow public survey	Research panel	200
Total		1265

You will see this survey referenced as 'Australian PWIT donor research (ntegrity)' throughout this report.

KEY INSIGHTS

INSIGHT 1: DAN PALLOTTA’S THOUGHT-LEADERSHIP HAS GENERATED A GROUNDSWELL OF AWARENESS, BUT LACKS TANGIBLE ACTIONS FOR NOT-FOR-PROFITS TO DRIVE CHANGE.

Finding 1.1 : The US-centric awareness campaign has driven awareness amongst Australian fundraisers.

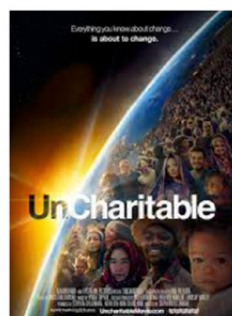
In March 2013, Dan Pallotta released a Ted Talk⁹ that called on the general public to “rethink charity”, drawing attention to an idea that charities are rewarded for how little they spend rather than the impact they make.

His theory of change is that Not-For-Profits need increased investment in overhead to have a greater impact. Pallotta’s Ted Talk has amassed 5.5 million views on YouTube and Pallotta has since founded an organisation called the [Charity Defense Council](#) which has released public facing “I am overhead” campaigns in the USA to bring awareness to the issue.



Figure 2 : “I’m Overhead” is the current campaign by the Charity Defense Council.

Pallotta has also written a book called ‘Uncharitable’ which has been adapted into a feature film, released in Australia in 2023.



For not-for-profit organisations

- If you knew you couldn't fail, what would your dream be?
- What dream lives in your heart that you are afraid to declare because it sounds too big, too audacious, too impossible?
- Can you state it clearly, as clearly as, “I believe we should commit to achieving the goal, before this decade is out, of landing a man on the moon and returning him safely to the earth?” What investments could you have made in growth but did not because you didn't want to invest the money?
- What investments have you not made in overhead and how has that impacted your impact?
- How has that impacted your growth?
- Has your entire board and staff seen the film?
- Can you develop a plan to have everyone see the film, so that you can all be on the same page about the future?
- By when will you do that?

Figure 3 : Uncharitable preview and supporting discussion guide downloaded to use alongside the Movie for audiences (NFPs, boards, CEOs).

9 Dan Pallotta’s Ted Talk: https://www.ted.com/talks/dan_pallotta_the_way_we_think_about_charity_is_dead_wrong?language=en

Beyond the “virality” of Dan Pallotta’s Ted Talk, it’s unclear how these efforts have affected public perception of Not-For-Profits’ actions in Australia. In order to deliver a successful campaign at the FIA conference, we needed to understand whether the target audience of our campaign (Australian fundraisers) were aware of the issue and if they believed there was a problem that impacted donor giving behaviour.

Our survey of fundraisers¹⁰ showed high awareness of both Dan Pallotta’s Ted Talk (71% of fundraisers familiar) and alignment to his theory of change: Not-For-Profits need increased investment in overhead to have a greater impact (88% think their organisation needs to invest more in infrastructure, fundraising, data or other organisational development activities to be able to grow or have greater impact and outcomes).

Finding 1.2 : There are limited resources that guide Not-For-Profits on how best to create change.

The stated objectives of Dan Pallotta’s campaigns are aimed at changing **public perception** of overhead costs. The below table is a breakdown of existing campaigns, demonstrating the lack of clear action for NFPs.

Entity/ Campaign	Stated Objective	Recommended actions	Recommended actions for NFPs
TED Talk	<i>Activist and fundraiser Dan Pallotta calls out the double standard that drives our broken relationship to charities. Instead of equating frugality with morality, he asks us to start rewarding charities for their big goals and big accomplishments (even if that comes with big expenses). In this bold talk, he says: Let’s change the way we think about changing the world.</i>	Compare NFPs to business norms. Don’t use overhead costs as a measure of impact.	None
Charity Defense Council	<i>We talk directly to the public with provocative advertising that makes them think. We hold the media accountable</i>	Don’t ask a charity if it has low overhead costs, ask if it has a big impact.	None
I am Overhead Campaign	We’re a creative laboratory for turning what can seem like complex accounting ideas into common sense, messages that the average person on the street can understand, and that can persuade them, on the spot.	Don’t ask a charity if it has low overhead, ask if it has big impact.	NFP can apply to be featured in the campaign.
Uncharitable	<i>This feature-length documentary directed by Stephen Gyllenhaal exposes the dark side of philanthropy and introduces a radical new way of giving. In a powerful call to action, Uncharitable demands that charities be freed from the traditional sackcloth-and-ashes constraints, so that they can truly change the world.</i>	Talk about the issue. Donate, pledge, share online and get others to watch the movie and read the book.	Talk about the issue. Donate, pledge, share online and get others to watch the movie and read the book.

10 Pay What It Takes Fundraisers Survey to 95 members of FIA

Finding 1.3 : Fundraisers believe they can create change through altering charity communications.

Through the three vision workshops coordinated by the PWIT Charity Consortium Australia, it was identified that charity communications are a key focus area for change, and the fundraiser survey agreed. 94% of fundraisers believe there is a problem with the way Australian Not-For-Profits or Charities represent and/or are funded for their overhead costs

“Fundraisers – or more specifically, fundraising organisations – could change how we communicate. However, it requires highly consistent and public messaging communicated across a long period of time.”¹¹

Additionally, data represents there is a desire for action and fundraisers believe they can enact that change. Of fundraisers who believe there is a problem, 63% believe they can do something to solve it. 37% were unsure and 0% disagreed.¹²

This is further backed by the fact that fundraisers had power to create change, with 30% able to adapt communications directly. 46% needed to gain approval from a manager, but were confident they would say yes. Only 23% said they cannot change or believe their organisation would be opposed to this change.¹³

Finding 1.4 : Fundraisers need collective agreement and resources to adapt charity communications.

Both the 95 respondents from the fundraiser survey and the focus group with 10 key charity leaders were asked an open ended question of “*What would you need to change the overhead cost narrative in your organisation?*”. Their answers were overwhelmingly about sector-wide collective agreement and action.

“It would be unlikely we would be the first mover on this or take this step alone.”

“As an Executive I am empowered to have the conversation - it would need to be with approval of the CEO and the Board. It would be more likely to succeed if there was a whole of sector approach.”

“Consistency within the industry, so we are all a united voice.”

“A sector-wide approach and agreement would help, but I can still start to work on this internally...”

“It requires the sector to come together to challenge the perceptions and reset the narrative rather than competing with each other for the best looking overhead ratios. Currently it's a race to the bottom.”

“Change needs to be consistent across the sector.”

11 Quote from Pay What It Takes Fundraisers Survey to 95 members of FIA

12 Pay What It Takes Fundraisers Survey to 95 members of FIA

13 Pay What It Takes Fundraisers Survey to 95 members of FIA

“We need to tackle this collectively. There needs to be a narrative shift around what it takes to deliver quality programs, which is about being underpinned by quality operations”

“All charities should work together to change this narrative.”

“Be more united in our voice around overheads/expenses.”¹⁴

Second to collective agreement, when asked “*What would you need to change the overhead cost narrative in your organisation?*” respondents listed guidance and resources around best practice communication.

“Better understanding of the best way to communicate this.”

“Supporting evidence, suggestions, best-practice.”

“Everyone in the sector also needs to be better at talking about them and braver in making the argument. Training on doing this may be helpful via an FIA course ‘Reporting and talking about indirect costs.’¹⁵

Key recommendations:

- Leverage existing awareness of Pay What It Takes and provide clear direct recommendations for fundraisers to create change.
- Develop shared actions and shared language every fundraiser can use to create change around their internal and external communications on overhead costs.
- Increase fundraiser’s authority and capability to enact change, through collective agreement for taking action through a pledge or public facing document.

14 Quotes from Pay What It Takes Fundraisers Survey to 95 members of FIA

15 Quotes from Pay What It Takes Fundraisers Survey to 95 members of FIA

INSIGHT 2: NOT-FOR-PROFITS SHOULD BE CAUTIOUS IN ASSUMING DONORS WANT TO MINIMISE OVERHEAD COSTS OR THAT OVERHEAD COSTS AFFECT GIVING BEHAVIOUR.

Finding 2.1 Previous research on donor attitudes towards overhead cost is inconsistent *and* at times conflicting.

There has been significant research on donor perceptions of Not-For-Profits' overhead costs. This attitudinal research has focused on predicting *future giving behaviour* based on donors' attitudes of what is important, as well as the ideal spend of allocations to overhead (vs. program costs).

Previous research differs depending on how the question is worded or framed.

Research	Low overhead costs are important to donors	Low overhead costs are <u>not</u> as important to donors
<p>McCrimble Australian Communities Report (2021)</p> <p>1,467 participants</p>	<ul style="list-style-type: none"> → For 70% of givers, keeping marketing and administration costs low (below 20%) matters more to them than growing overall donation revenue. → 90% answered that the number one reason givers stop supporting a charity/not-for-profit is a mismanagement of finances. → 63% of Australian givers are more likely to say that detailed and transparent reporting of fund allocation matters more than charities being trusted to direct donations for maximum impact (37%). 	<ul style="list-style-type: none"> → Nine in ten Australian givers (90%) are willing to trust Not-For-Profits to allocate resources to get the greatest return on investment, even if this requires them to invest more than 20% into marketing and quality staff. → Emerging generations showing a greater openness to growing overall donation revenues to maximise impact and employ quality staff rather than to keep staff costs as low as possible. → Australian givers are more likely to believe that employing quality staff matters more (64%) than keeping staff costs as low as possible (36%).
<p>The Smith Family Charity Givers Survey (2021)</p> <p>534 participants</p>	<ul style="list-style-type: none"> → The percentage going to the cause is somewhat more important when starting to give (the percentage of donation going to cause ranked #2 in importance). → Trust is also lower when people start to give, and higher after continued giving, proving that the percentage going to the cause is more important at the initial stages of donation. 	<ul style="list-style-type: none"> → The percentage going to the cause lessens in importance for continued giving. Impact, stories, knowing the work rises in importance. → Donors prefer to “Make the biggest difference” vs “Spend the least on admin”. → Minimal acceptable direct to the cause = 66% (36% overhead cost).
<p>Red Cross Research (2023)</p> <p>43 participants</p>	<ul style="list-style-type: none"> → 30% admin costs are on par or less than what many expected. → 20% admin fees are preferable, if this is possible. 	<ul style="list-style-type: none"> → 10% admin fees are considered unrealistic. → On average Australians believe around 27% of donations go to administer the charity.. However, this is expected to vary by charity.
<p>MoreStrategic’s Cost of Living Study Nov (2023)</p> <p>1,009 participants</p>		<ul style="list-style-type: none"> → What NFPs need to run effectively = Allocated 37% fundraising & 16% administration with 31% to community programs and frontline and 16% campaigning & advocacy. → What proportion of donation should go directly to frontline/ program vs. overhead costs. On average respondents believe 57% does go to the cause, however they believe 72% should go to the cause. In contrast, respondents believe 48% does go to admin costs, however they believe 41% should go to admin costs.

The average overhead cost for the 16,000 Not-For-Profits analysed in Philanthropy Australia's report is 33% of the total costs¹⁶. Not-For-Profits often seek to understand what percentage is acceptable or palatable for donors, however existing research is inconclusive on this, identifying ranges from 10%-40% of total Not-For-Profit expenditure.

30% admin costs are on par or less than what many expected. However when talking to this we should focus on the amount going to help and this is a higher number and what people want to know.

→ **Red Cross Research 2023**

When asked how much of each donation dollar is allocated "direct to the cause", respondents believe that 79.1% should be allocated direct to the cause, believe 59.8% actually does go direct to the cause, and believe that the minimum acceptable allocation is 66% direct to the cause.

In contrast, when asked how much of each donation dollar is allocated "to administration and fundraising", respondents believe that 34.2% should be allocated to administration and fundraising, believe 42.9% actually goes to administration and fundraising, and believe that the minimum acceptable allocation is 35% to administration and fundraising.

→ **The Smith Family Research 2021**

In More Strategic's Cost of Living Survey, they asked respondents when "Thinking about what charities and Not-For-Profits need to run effectively, please apply the percentage you would be comfortable allocating across each of the following area". Respondents allocated 35.6% to fundraising, 31.6% to community programs and frontline service, 16.1% to campaigning and advocacy and 15.7% to administration.

→ **More Strategic Cost of Living Research Nov 2023**

Due to the inconsistencies in the research and no direct data that correlates attitudes to giving, it is recommended that Not-For-Profits should be careful in assuming donors want to minimise overhead costs and that there is a specific percentage that is desirable.

Finding 2.2 Donors' attitudes to overhead costs aren't correlated to their historical giving behaviour.

Across all key data points (the donor survey, keyword analysis, and Google Analytics analysis) it was identified that **the majority of donors have not looked for overhead costs when they have donated to a Not-For-Profit in the past.**

Although respondents have regularly answered attitudinally that they care about low overhead costs (as seen in 2.1), their behaviour does not support this.

While it is assumed that donors are looking when making a donation to a new organisation, 80% of donors reported they do not look. When asked "*Before making a donation to a charity you haven't donated to, how frequently have you look at overhead costs?*"

Actively search for overhead costs when donating to a new charity (20%)

- 7% "always" researched overhead costs
- 13% "often" researched overhead costs

Do not actively search for overhead costs when donating to a new charity (80%)

- 42% "never" researched overhead costs
- 16% "rarely" researched overhead costs
- 22% "sometimes" researched overhead costs

Donors also reported rarely knowing what percentage of "administration costs" for their charity of choice.

- 57% of respondents did not know the administration cost ratio for any of the Not-For-Profits they commonly give to.
- 30% knew only some of the administration cost ratio for any of the Not-For-Profits they commonly give to.

Only 2% knew the percentage of administration costs, this means 98% of people that give a first donation to a charity do not know what the percentage of their donation goes towards administration.

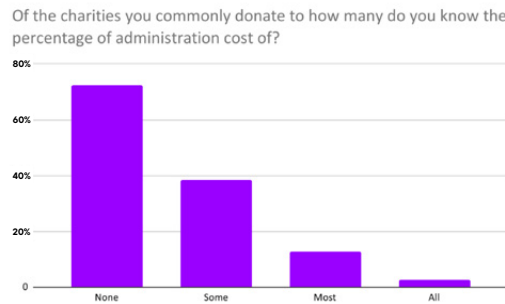


Figure 4: Australian PWIT Donor Research (ntegrity), 2024, n=1265

Finding 2.3 The volume of Australians seeking information about overhead costs on Google is extremely small.

Keyword analysis found that of the 5,000+ generic searches on Australian charities each month only a small percentage are looking for common words or terms Not-For-Profits use to describe overhead (i.e. “lowest admin”). Where the search volume was slightly larger was Australians looking for “best” or “worst” charities, potentially as a proxy for effectiveness.

(Please note keywords were for ‘Australian charity/Not-For-Profits’ and ‘Australian charities/Not-For-Profits’ and did not include branded search keywords where people search for specific Not-For-Profit organisations)

Keyword group	Monthly volume of searches within Australia
Donate	1900
Cause	1500
Good	1260
Best	1130
Fundraise	750
Worst	350
Percent	140
Gives the Most	80
Lowest admin	70
Effective	40
How much goes to charity	30
Impact	30

Figure 5: Table shows a breakdown of the Keywords analysed through our research. We grouped keywords into key categories (e.g. donate related keywords and searches) and then assessed the monthly volume of searches for these related terms. The Monthly Volume is the number of times that keyword is searched for per month in Australia.

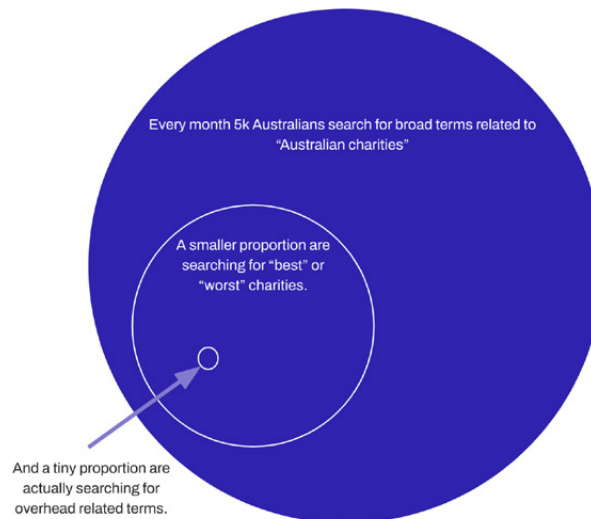


Figure 6: Image shows a visual depiction of the size of search volume for overhead related terms in comparison to other not-for-profit related keywords.

Finding 2.4 Digital channel analysis shows the majority of donors do not review a Not-For-Profit's overhead costs before (or after) making a donation.

As a final comparison point, donation pathways were analysed from five Not-For-Profits (i.e. that is the most common website pages that donors look at before making a donation) as well as visits to the annual report page on the website. Through this analysis it was assumed that the annual report is the primary area where the majority of Not-For-Profit's communicate about overhead costs (89% of all fundraisers said they feature overhead costs here, the highest of all communication materials¹⁷) and where donors would look if they were reviewing it before making a donation.

When reviewing the *most common donation behaviour pathways*, it was found that donors **do not** look at Not-For-Profit's Annual Report or About Us pages (again where the majority of Not-For-Profits display information on their overhead costs) before making a donation in a single website session. As seen in the screenshot below the financial reporting section of the site is not in any of the most common donor conversion journeys. This was seen across *all* GA4 accounts that were reviewed.



Figure 7: Anonymised Google Analytics Data showing the most common donation behaviour pathways.
The annual report page does not feature in the most common donation pathways.

While the above shows no direct correlation between financial information in the annual report and the conversion pathway, website users were found to look at financial information in a separate site visit before or after making a donation.

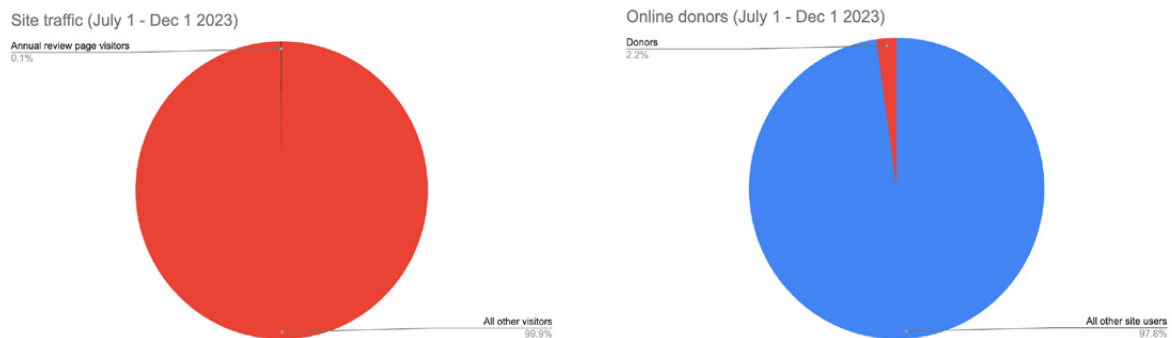


Figure 8: Anonymised Google Analytics Data shows 0.12% of website visitors visit the Annual Report page.
While 2.2% of website visitors made a donation.

From July 1–December 31 2023, page visitors to the annual report made up on average only 0.12% of page visitors . If it is assumed that 100% of the 0.12% users that viewed the annual report made a donation across the 6 months of data analysed, then it becomes clear that 94.5% of donors do not check annual reports or look for overhead costs before making online donations.

This demonstrates that potentially a small minority of donors do look at financial information in a separate site visit before or after making a donation, but that number is very small (less than 5.5%)

Key recommendations:

- **Actively challenge internal perceptions** that donors want overhead costs reduced. Show that donors care about *the impact* overhead costs achieve, not the percentage of overhead costs.
- **Reframing your overhead costs through building your organisation's business case:**
 - Analysing conversion pathways (i.e. the steps a donor takes before donating). Understand which pages on your website garner donor traffic that lead to donations. Understand what donors are researching before giving and whether or not this research involves analysing overhead costs.
 - Incorporating behaviour based questions in your annual donor survey to understand overheads impact on previous behaviours, for example "How often have you researched overhead/admin costs before your donation?" or "Why did you choose to donate?"
 - Comparing the result gained from your research (conversion pathways and donor survey) to data in this report. See if there is alignment/similarity to key themes and recommendations.
 - Work with your team to organise internal interviews to understand how stakeholders within the organisation view overhead costs and the assumptions they are making about donor behaviour. Note the alignment or misalignment between internal perceptions and external data.
- **Put "Reframing Overhead" on your organisations agenda by:**
 - Schedule a discussion and get support from whomever is most appropriate, i.e. CEO, Board or other stakeholders.
 - **Dispel misconceptions around overhead costs through presenting:**
 - Internal perceptions compared to donor data mentioned above.
 - Outline key areas you want to change in reporting on overheads.
 - **Facilitate a conversation on next steps**, and what impact the perceptions of overhead costs may have on the wider organisation's effectiveness.

INSIGHT 3: DONORS APPRECIATE & UNDERSTAND THE IMPORTANCE OF CHARITIES INVESTING IN OVERHEAD COSTS IF IT’S FRAMED IN THE RIGHT MANNER AND LINKED TO IMPACT.

Finding 3.1 Not-For-Profits use limited, and often limiting, terms in how they portray overhead costs.

In our analysis of 19 Not-For-Profit websites and through the FIA fundraiser survey, the majority refer to overhead costs using the language and terminology listed below, with the most common words used to describe some overhead costs as “administration”, “fundraising” and “operations”.

Snapshot of language used by Not-For-Profits to describe overhead costs

Language commonly used by Not-For-Profits to talk about overhead costs	ntegrity website analysis ¹⁸	FIA Fundraiser Survey ¹⁹
Administration	56%	72%
Fundraising	56%	65%
Pie chart (visual)	45%	56%
Operation costs	33%	60%
Cost income ratio (i.e for every \$1 raised, 72% goes to program)	22%	26%
Overheads	5.5%	24%
Support costs	5.5%	-
Income cost ratio (i.e for every \$1 you donate, we raise \$3 more)	5.5%	

¹⁸ ntegrity’s digital analysis of 19x charity websites 2023

¹⁹ FIA fundraiser survey 2024

The most common visual representation of overhead costs is a pie chart and tends to highlight on the funds that **aren't going to programs**. The implicit message of this style of breakdown is that the greater the spending on programming the better.

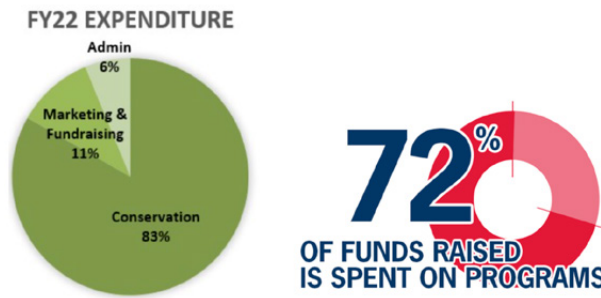


Figure 9: Screenshots from 2x charity websites which show a common way Not-For-Profits visualise overhead vs. program costs.

Previous research (seen in figure 10 & 11) undertaken between 2017 and 2021 indicates that donors show neutral or negative perception of the language and visuals Not-For-Profits most commonly use – including words like “administration” or the simple cost income ratio breakdown. (The cost income ratio shows the percentage of expenses that a Not-For-Profit is spending on overheads.)

More Strategic Sustainability Report shows negative donor sentiment when donors were asked about the cost income ratio (i.e. “for every \$1 you donate, 33% goes to the cost of fundraising”), with 47% rating it as “quite bad” and 23% rating it as “really bad”.²⁰

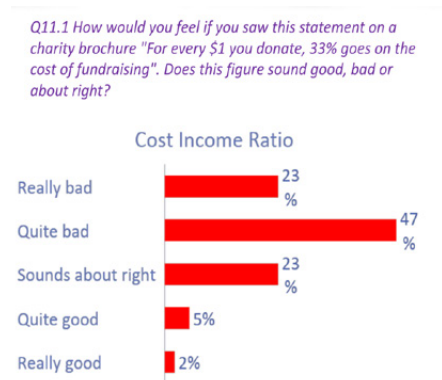


Figure 10 : *More Strategic Sustainability Report* screenshot.

The Smith Family research mirrors More Strategic’s research, with donors showing negative and neutral donor preference to cost income ratio. 37% rate it as “bad”, 33% rate it as “right” and 30% rate it as “good”.²¹

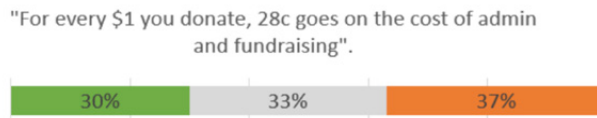


Figure 11: The Smith Family Research screenshot.

However Not-For-Profits commonly use these visuals despite donors’ negative/neutral perceptions (at least 56% as self-reported via the FIA fundraisers survey).²² This could potentially be because donors have communicated visualisations are important.

When donating to a charity, which of the following would help you feel confident in the charity's trustworthiness?

	More confident
A quote from an independent financial auditor endorsing the charity	36%
A quote from a university endorsing the charity	13%
A visualisation on how the charity's program funds are distributed	55%
A positive rating from an independent agency (like CHOICE, CANSTAR), certifying the charity as effective	54%
An endorsement that the charity is a member of an industry body or regulator (eg Fundraising Institute of Australia)	41%

Figure 12: Australian PWIT Donor Research (ntegrity), 2024, n=1265

Figure 12 identified that visualisation that details how funds are distributed on the charity’s program are rated highly for donors and made them feel more confident in the charity’s trustworthiness. Demonstrating visual cues are important for increasing trust, however the visual clues most Not-For-Profits use (see previous page) are viewed negatively or neutral.

Finding 3.2 Donors have shown positive sentiment towards fundraising when framed strategically.

Drilling into a subset of overheads, fundraising is classified separately from administration when Not-For-Profits display their overhead costs. This is consistent with respondents **as they rate fundraising as a more meaningful area for charities to achieve impact**. 30% of respondents in the donor survey rated fundraising as very important to a charity achieving impact, this compares to 12% who rated administration as very important (as shown in chart 18 in section 3.3).

Additionally, when two options for spending breakdown were displayed, the one with higher spend on fundraising over administration was preferred by an overwhelming majority of respondents (78%).

21 The Smith Family Research (2021)
22 FIA fundraiser survey 2024

Based on the following spending breakdown, which of the following charities would you prefer to support?	% who prefer to support this charity
Charity A: Programs - 70%, Administration - 20%, Fundraising - 10%	22%
Charity B: Programs - 70%, Fundraising - 20%, Administration - 10%	78%

Figure 13: Australian PWIT Donor Research (ntegrity), 2024, n=1265

While prior research (as shown below) indicates a negative/neutral preference for the cost income ratio statements, the income cost ratio has shown positive results. (The income cost ratio shows the return investment from fundraising overhead.)

More Strategic Sustainability Report shows extremely positive donor sentiment when donors were asked about the income cost ratio (i.e. “When you donate \$1 a charity is then able to raise \$3”). Over 90% were felt good about the ratio - 20% rated it “really good”, 42% rated it as “quite good”, 30% rated it as “sounds about right”. In contrast, when donors were asked about the cost income ratio (i.e. “for every \$1 you donate, 33% goes to the cost of fundraising”), 47% rated it as “quite bad” and 23% rated it as “really bad”.²³

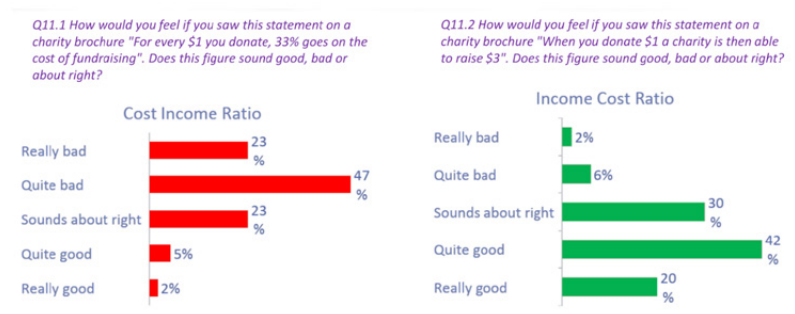


Figure 14 : More Strategic Sustainability Report screenshot.

Similarly, The Smith Family Research shows overwhelming donor preference for the income cost ratio (i.e. “When you donate \$1 the charity is then able to raise \$3.50”) with 65% rating it as “good”, 26% rating it as “right”, and 9% rating it as “bad”.²⁴

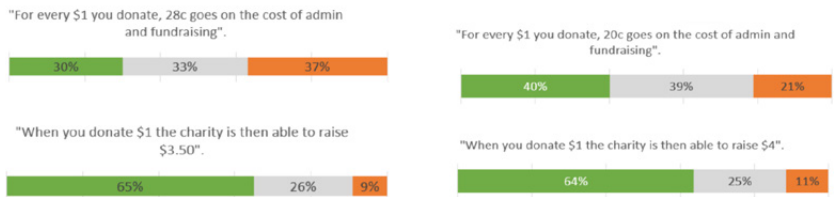


Figure 15 : The Smith Family Research screenshot.

While positive preference for income cost ratio is consistent. The discovery research found that only one Not-For-Profit (Cancer Council South Australia) used the income cost ratio in their fundraising communications; none of the 95 fundraisers surveyed through FIA reported using the income cost ratio.



Figure 16: A screenshot from Cancer Council South Australia Annual Impact Report 2021-2022 which visualises the income cost ratio.

Donor research also asked for perception of best use of funds, with two options including an income cost ratio claim and two options excluding the income cost ratio claim. 75% of respondents chose the chart with the income cost claim, demonstrating strong preference for reporting that demonstrates the impact of overhead (i.e. the idea that every dollar put into fundraising can raise more money).

Which of the following pie chart examples shows the best use of funds spent by a charity?

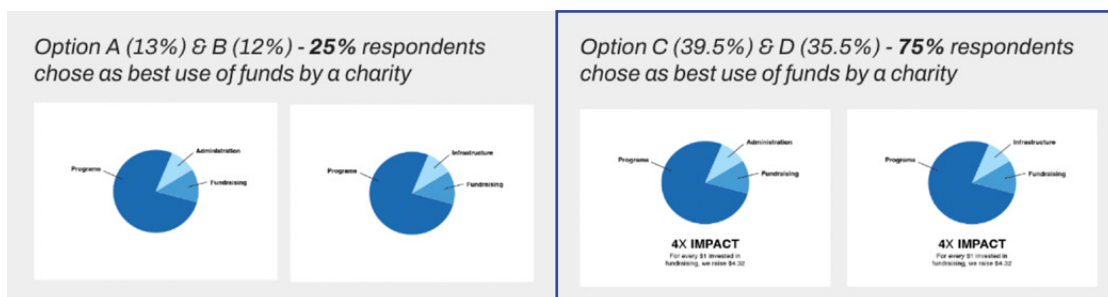


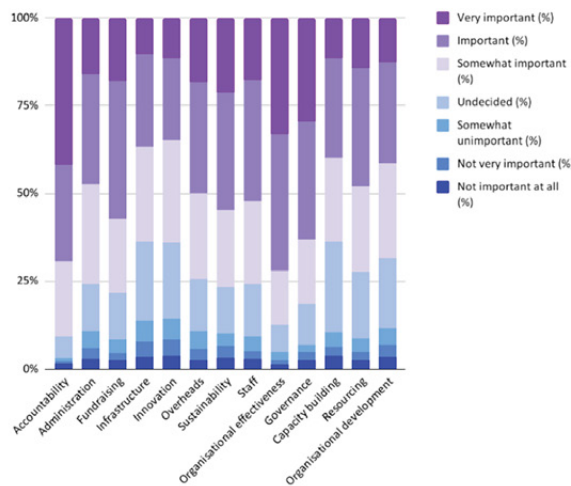
Figure 17: Australian PWIT Donor Research (ntegrity), 2024, n=1265

Finding 3.3 Over simplification & the minimisation of overhead cost are not in alignment with what donors respond to.

Most market research exploring the perception of overhead costs focused on attitudes towards two overhead cost categories: administrative costs and fundraising costs. Yet overhead costs commonly cover a diverse set of organisation activities and focus areas.

In the donor survey, when asked **what areas are important for a charity to allocate money to**, key areas were rated as important and very important by the majority of respondents. Accountability, governance, organisational effectiveness and fundraising were rated as important or very important for a charity to allocate money to by over 50% of respondents. Conversely less than 50% of respondents rated administration as an important or very important area for charities to allocate money.

Thinking about the areas that charities allocate money, please rate the following in terms of importance



Thinking about the areas that charities allocate money, please rate the following in terms of importance

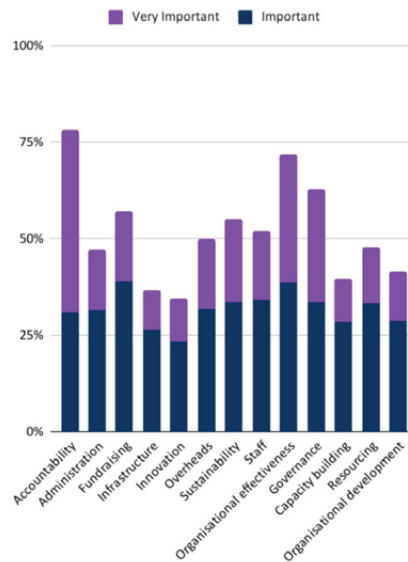


Figure 18: Australian PWIT Donor Research (ntegrity), 2024, n=1265

The donor survey also looked to establish donor perception of the importance of impact through asking donors to rate areas of importance. Over 60% of respondents rated the areas of accountability & governance, fundraising, operations, and training & development as important or very important for a charity to achieve impact. Less than 50% of respondents rated administration as important or very important to a charity achieving impact. It is important to note, this response does challenge some assumptions made through the Pay What It Takes movement that donors do not want to pay for effective charity operations as inferred by messaging used in the Charity Defense Council’s campaigns²⁵.

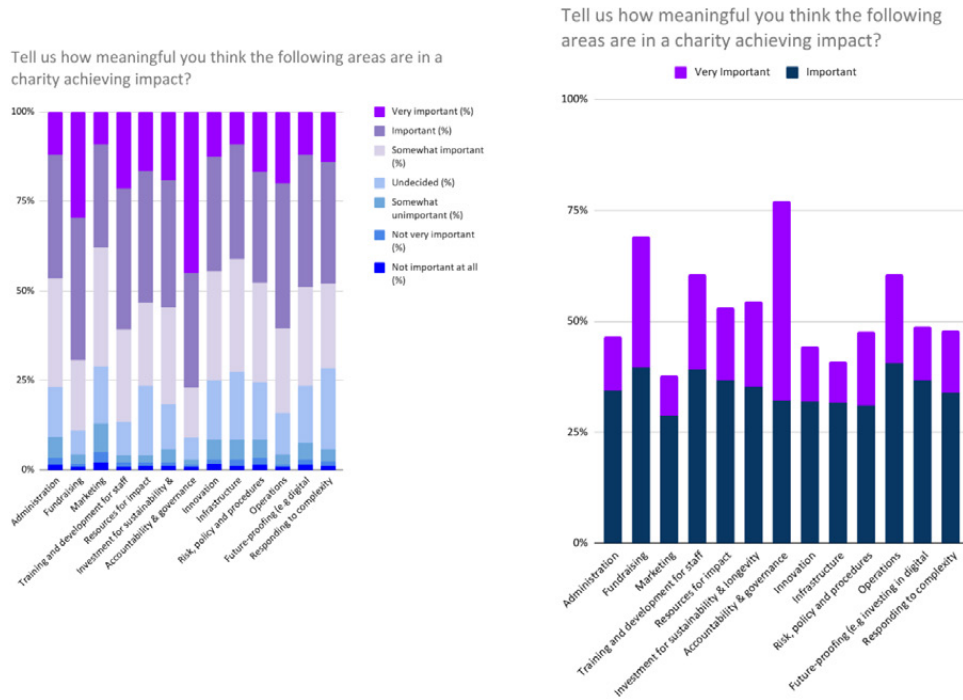


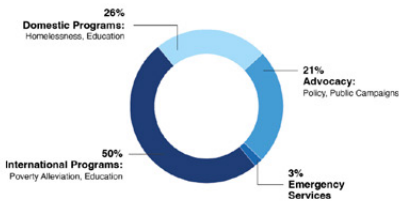
Figure 19: Australian PWIT Donor Research (ntegrity), 2024, n=1265

When asked about making an impact, the research indicates that donors evaluate areas that a charity allocates spend differently. By breaking down “administration” and referring to it with different terms it was viewed as more favourable by donors. In particular, terms such as accountability and governance, fundraising, operations, and training and development proved popular with donors.

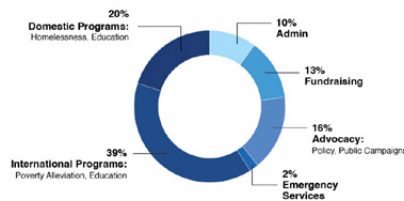
Providing donors with more detailed information on how an organisation spends funds across both programming and overhead costs provides more context and transparency. When asked which cost breakdown donors preferred the majority chose the one with greater transparency.

Which of the following charts do you prefer as a visualisation of a charities breakdown of spend?

Option A 19% of respondents chose as a preferred visualisation



Option B 19% of respondents chose as a preferred visualisation



Option C 62% of respondents chose as a preferred visualisation

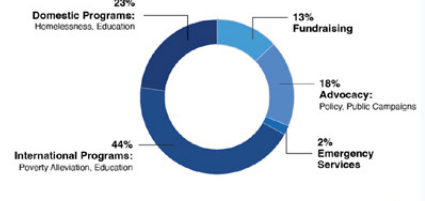


Figure 20: Australian PWIT Donor Research (ntegrity), 2024, n=1265

Through the review of the sector alternative ways Not-For-Profit to visualise overhead costs was observed, the following screenshot from RSPCA QLD was submitted via the FIA Fundraisers Survey as an example of how overhead costs such as fundraising costs can be explained positively and linked to investment.

HOW YOUR GENEROUS DONATIONS WERE INVESTED IN 2022/2023

Providing immediate care for animals in need

- 56 cents in every dollar directly supports animals in need right now, including the Inspectorate, shelters, veterinary hospitals, wildlife and community outreach and education programs.

Investing in the future welfare of animals

- 12 cents in every dollar is reinvested into raising vital funds, so we can be ready to help even more animals in the future.
- 15 cents in every dollar funds our Social Enterprises to ensure we have ongoing revenue streams to deliver profit for purpose.

Making sure we do things the right way

- 17 cents in every dollar covers the essentials to ensure we run our organisation effectively and efficiently.

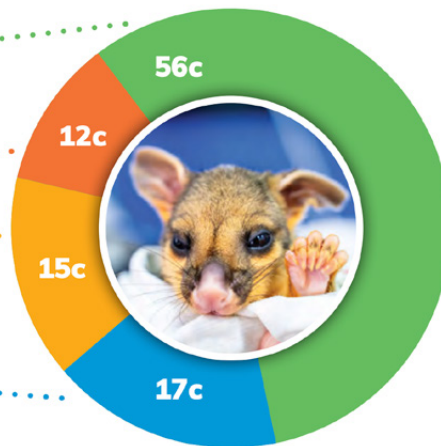


Figure 21: Screenshot submitted via the FIA Fundraisers Survey. RSPCA Queensland Annual Impact Report 2022-2023.

Finding 3.4 Fundraisers lack of clarity around the legal requirements for defining overhead costs.

It became clear through the focus groups that one barrier to updating how organisations communicate overhead costs is linked to how they are defined by the finance department. There is a lack of clarity around whether or not there are legal or regulatory reasons for the categorisation of overhead costs in specific buckets, for example, administration.

“I’m not sure if we have to use the term “admin” due to financial due diligence or whether its a cultural norm we’ve set up for ourselves”

Secondary sources did indicate that accounting peak bodies in other regions have tried to educate accountants on the need to work differently when located within a Not-For-Profit. For example, The Institute of Chartered Accountants England & Wales, speaks to its members directly about the misconceptions of overheads. This is just one way in which to address the disconnect between fundraisers and financial teams. This is something that could be investigated in future in Australia and provides for a more holistic organisational wide approach to communicating overhead costs.

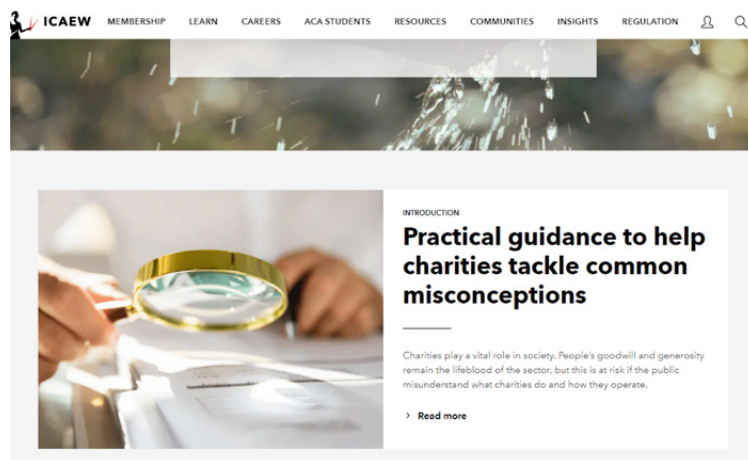


Figure 22: The Institute of Chartered Accountants of England & Wales' guides for accountants working in charities.
www.icaew.com/technical/charity-community/resources/accounting-and-reporting/dispelling-common-myths-about-charities

Key recommendations:

- Stop using the terms “**administration**” “**capacity building**” or “**infrastructure**” as a catch all term.
 - Start breaking down overhead costs into categories such as accountability, governance, fundraising, operational effectiveness, operations, sustainability, training & development.
- Stop having your org pie chart or other visuals focus on the percentage of funding *not going* to programs.
 - Continue to include visualisations as research shows donors see them as an important way to build confidence in a charity.
 - Start to reframe visuals to provide context on how costs are linked to investment and impact.
 - Start using an ‘income cost ratio’ (which shows the return investment from fundraising overhead costs) to increase positive sentiment.
- Stop framing overhead costs as negative or implying they should be minimised.
 - Start highlighting or spotlighting the impact overhead costs make to programming, tracking and measuring outcomes, or organisational health.
 - Start making it easy for donors to see the value of overhead costs.
 - Start framing overhead costs in strong and helpful ways such as building operational effectiveness and sustainability, providing legacy & longevity and responding to complexity.

INSIGHT 4: NOT-FOR-PROFITS NEED MORE DATA ON THE IMPACT OF OVERHEAD COSTS TO FURTHER BUILD THEIR CASE FOR SUPPORT.

Finding 4.1: Fundraisers can influence their Senior Leadership and Board and can always use more benchmarking data to expand or strengthen their case for support.

The focus group discussions and responses from the fundraiser survey reveal a crucial need among NFP executives and fundraisers for more and regular data to support conversations around overhead. Both boards and CEOs are interested in overhead costs – with 32% of fundraisers saying their CEOs ask about overhead costs a few times a year and 44% saying their boards ask a few times a year²⁶. Furthermore, the fundraisers communicated they want to influence their board (and 65% do so²⁷) but lack the data to make the case for overhead costs.

“Board wants to know ‘Is what we are doing normal and acceptable.’”

“[Boards ask] What’s the normal cost of overheads to an org? They’re looking for benchmarks.”²⁸

Finding 4.2: There is a gap in benchmarking data available about long-term investment in overhead costs.

Despite indications of a positive sentiment from donors towards overhead costs that contribute to impact (as outlined in Insight 3), there’s a significant gap in benchmarking data and research to regularly validate and track change within the Australian context.

When fundraisers are asked what they need to be able to change the overhead cost narrative within their organisation they spoke not just of the need for collective action (as seen in Insight 1) but also of the need for benchmarks, data and evidence.

“To be able to demonstrate that more investment in fundraising ‘overheads’ could feasibly deliver significant income growth in the longer term (2-3 years)”

“Demonstrated financial benefit in other organisations”

US-based studies²⁹ have shown that strategic investment in overhead costs correlate with higher organisational growth, but there is no current research that has linked investments in overhead costs to organisational growth in Australia.

26 FIA fundraiser survey 2024

27 FIA fundraiser survey 2024

28 Focus Group results 2024

29 2024 by The BridgeSpan.org/getmedia/051a4b92-1da3-4f5f-91a6-3718dea0ad15/CD-Infographic.pdf4.0.



Figure 23: A snapshot of findings from Bridgespan consulting (USA) on an overhead study of Indian Not-For-Profits. <https://www.bridgespan.org/getmedia/051a4b92-1da3-4f5f-91a6-3718dea0ad15/OD-Infographic.pdf>

The most relevant Australian research was conducted by More Strategic in 2023 which linked increased investment in fundraising expenditure to an increase in fundraising results. This research could be extrapolated for broader analysis of investment in overhead costs.

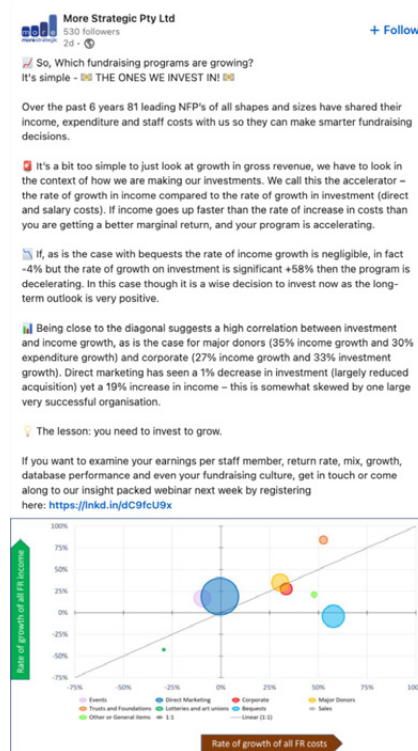


Figure 24: More Strategic research (2023) points to increase growth through increased investment in fundraising

Finding 4.3: Australian-specific research is needed to build a case for support, manage public relations, and provide industry wide benchmarks.

If Australian based research trends similarly to findings from the Bridgespan Group³⁰, this could build a case for support, particularly internally for NFP executives looking to increase investments into overheads.

By initiating this research, the Australian NFP sector can build a robust, data-driven case for the strategic investment in overhead costs, aligning internal stakeholders and fostering a more sustainable and impactful approach to serving the community.

Other benefits to this research could be managing public relations related to critique on charity spending and overhead costs. Media articles regularly feature critique on charity spending as newsworthy, and this has been a key focus area for the Charity Defense Council.³¹

Case #2

Media malfeasance in NPR and Pro Publica Reporting on Red Cross initiatives in Haiti.

American Red Cross

It was widely reported that the Red Cross raised half a billion dollars for Haiti and only built six homes. The truth is they repaired homes, relocated tens of thousands of people, renovated bridges, restored power, created transitional shelters for tens of thousands, funded a vaccine, repaired hospitals and clinics, created new job training programs and much more. When Pro Publica and NPR got it wrong, we were there with donor advisories to show the truly remarkable impact of Red Cross efforts.

[READ THE DONOR ADVISORY](#)

Figure 25: Case study the Charity Defense Council worked on, on behalf of the American Red Cross.

Research that provides industry benchmarks relative to NFP stage of growth (i.e. “start up charities may have higher overhead costs but also higher growth rates”) may help Not-For-Profits individually but also collectively respond to media critique and influence the broader narrative on overhead costs.



Figure 26: Photo of front page news Sydney Morning Herald, January 27th 2024.

30 Bridgespan Group ‘Pay What it Takes’ India Initiative: <https://www.bridgespan.org/insights/funder-practices-that-strengthen-nonprofits-in-india>

31 Charity Defense Council: <https://www.charitydefensecouncil.org/>

It should be acknowledged that organisation structure, size, stakeholders and more may all affect how overhead costs can be communicated. For instance a younger, smaller Not-For-Profit will likely have higher overhead costs because they are investing in growth, governance and systems, while, while a larger legacy Not-For-Profit may earn more income from legacy sources that help supplement overhead costs. Despite this, a collective reframing of overhead costs can help the industry as a whole – even with a wide variety of organisation models.

Key recommendation:

The industry should collectively commission targeted Australian research that examines the impact of investing in overhead costs on organisational growth and effectiveness. Such research should aim to:

- Develop evidence to support the strategic allocation of resources towards overhead costs, demonstrating its correlation with enhanced capacity for impact.
- Equip key spokespeople, fundraisers and NFP executives with the data needed to engage all stakeholders (boards, donors and media) in informed discussions about investment in overhead costs and connection to better outcomes and/or impact.

CALLS TO ACTION

Based on the research and insights discussed above, it becomes clear there is an overarching need to reframe how the Australian Not-For-Profit industry speaks about overhead costs, internally and externally. Here a series of calls to action and recommendations are outlined.

INTERNAL STAKEHOLDER RECOMMENDATIONS

To reframe the external narrative/representation on overheads costs, fundraisers need to establish internal understanding and agreement. Recommendations below are directed toward fundraisers to engage their executive and board in discussions around overhead costs.

1. Sign the pledge to join the PWIT Charity Consortium Australia to get access to the best practice guide and signal to key stakeholders that you are part of a larger movement supporting the reframing of overhead costs and dialing up showcasing impact as a measure of success.
2. Leverage existing awareness of Pay What It Takes and use this report (and the PWIT Guide) to focus on shared action and shared language you can use within your organisation.
3. Gather internal evidence of how overhead costs are viewed within your organisation. Use this report and your own data. Develop a case for why your organisation should reframe overhead costs. To do this, we recommend:
 - a. Incorporating behaviour based questions into your annual donor surveys to gather insights into the role overhead costs plays in donors' decision making (i.e. How often have you researched overhead/admin costs before making a donation?)
 - b. Analysing donation conversion pathways to see whether overhead costs research is impacting donation flow on your website.
 - c. Conducting internal interviews alongside donor analysis and seeing whether there is alignment/misalignment between internal perceptions of overhead costs versus donor perceptions.
4. Start a conversation with your Executive and Board with the aim of aligning on how overhead costs for your organisation are presented externally. Talking points include:
 - a. Understand how they view overhead costs and the broader industry landscape. *I.e. What is their perception of overhead costs and donor behaviour, what impact this might have on charity effectiveness?*
 - b. Share insights from this research and align and compliment it with your own analysis to identify what can be done to address challenges you face.

- c. Provide data needed to help your executives and board to lead informed discussions about investment in overhead costs and connection to better outcomes and/or impact.
- d. Actively challenge internal perceptions that donors want overhead costs reduced.
- e. Focus on next steps, and what impact the perceptions of overhead costs may have on the wider organisation's effectiveness.

EXTERNAL STAKEHOLDER RECOMMENDATIONS

This research has surfaced key recommendations that all fundraisers should implement in regard to donors:

1. Reframe overhead costs language to use terminology that has been proven to appeal to donors. To do this, we recommend:
 - a. Avoiding the use of blanket terms like administration for a wide variety of cost types. Instead, break down this information to provide more detail. As well as reframing language from overhead costs to investments in efficiency, effectiveness and impact. Effective terms include: accountability & governance, fundraising, operational effectiveness, operations, training & development. Reframing language from overhead costs to investments in efficiency, effectiveness and impact.
 - b. Updating public facing spend visualisations to include more detailed breakdowns across both programming and overhead costs.
 - c. Starting to reframe visuals to provide context on how costs are linked to investment and impact and the 'income cost ratio' to increase positive sentiment.
2. Provide donors more information on overhead costs, rather than using minimising language or refraining from mentioning these costs. Also tie overhead costs back to outcomes and impact at all touch points, from your annual report to your website. We recommend:
 - a. Framing overhead costs in strong and helpful ways such as building operational effectiveness & sustainability, providing legacy & longevity and responding to complexity.
3. Reframe how you speak about fundraising, making it clear the impact fundraising can have on your organisation's ability to provide services.
 - a. Incorporating a fundraising investment multiplier.
 - b. Reporting back on achievements made due to prior investments (ie. "New donors have increased by x% due to our investment in data modelling").
 - c. Giving richer details and updates on the effectiveness of fundraising by detailing future investments that will bring future impact (i.e. investments in data/security, technology and new product development will bring increased revenue through x).

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