

# THE OVERHEAD MYTH

## MOVING TOWARD AN OVERHEAD SOLUTION

To the Nonprofits of America:

We write to ask for your **help to end the Overhead Myth**—the false conception that financial ratios are a proxy for overall nonprofit performance. Last year we wrote a letter to the donors of America asking them to consider the results (especially outcomes and impact) created by nonprofits, and to not judge you solely on percent of charity expenses that go to administrative and fundraising costs. While overhead can help us identify cases of fraud or gross mismanagement and serve as a part of an organization's dashboard of financial management metrics, it tells us nothing about the results of your work (i.e., how you meet your mission).

You know as well as we that nonprofits are, to use the title of an article in the *Stanford Social Innovation Review*, prone to the “**Nonprofit Starvation Cycle**”: a spiral of donor demands, underinvestment in core costs, and limited results. This starvation cycle hurts nonprofits and donors, but, most important, it hurts our shared work for a better world. We want to work together with you to end the Overhead Myth. To that end, **we ask three things of nonprofits to help us move toward an Overhead Solution:**

- First, **demonstrate ethical practice and share data about your performance.** Proactively demonstrate why donors should trust you. Have the courage to share information about your goals, strategies, management systems, and governance processes.
- Second, **manage towards results and understand your true costs.** We have found that many nonprofits do not manage with an eye always on results—and even if they do, they don't know how much it costs to achieve those results. Organizations need to employ effective performance management systems and recognize that financial management is not just about audits and Forms 990, it is also about understanding the cost of achieving their missions.
- Third, **help educate funders (individuals, foundations, corporations, and government) on the real cost of results.** Have honest conversations with your funders about what it takes to do your work. Too often nonprofits contribute to the Overhead Myth by highlighting financial ratios as their core accomplishment—especially in their fundraising materials. Tragically, this can be at the expense of meaningful performance metrics and reinforces funders' confusion. Funders need to understand the truth if they are to change their behavior.

On the back of this letter **you will find more resources** for you as you make this transition. Our three organizations strive to make the sharing of nonprofit data easier, less repetitive, and more useful. As a field, we can move beyond the Overhead Myth to an Overhead Solution, but we need your help. Let us drive a conversation about nonprofit trustworthiness and performance that is worthy of the people, the communities, and the ecosystems we all serve.

Thank you,



Art Taylor  
President, BBB Wise Giving Alliance



Jacob Harold  
President & CEO, GuideStar USA



Ken Berger  
President & CEO, Charity Navigator

# Nonprofits, here's how you can start making a difference.

## Demonstrate ethical practice and share data about your performance.

- Participate in the free [GuideStar Exchange](#) to share information about how your organization is governed.
- Check [BBB Wise Giving Alliance's Standards for Charity Accountability](#) for recommended practices on governance, finances, fundraising, and more.
- Read [Charity Navigator's Accountability & Transparency methodology](#).
- Read [Independent Sector: Principles for Good Governance & Ethical Practice](#) to learn best practices in operations improvement.
- Visit [www.performwell.org](http://www.performwell.org) to complete the performance management cycle.

## Manage towards results.

### Strive to make a lasting impact.

- Read [Leap of Reason](#) by Mario Morino.
- Join the [Lean Impact](#) learning community to better utilize Lean Startup Principles.
- Read ["Zeroing in on Impact"](#) by Susan Colby, Nan Stone, and Paul Carttar, *Stanford Social Innovation Review*, Fall 2004.
- Review [Charity Navigator's Results Reporting methodology and concept note](#).
- Review the [Effectiveness Reporting section of the BBB Standards for Charity Accountability](#).

### Understand your true costs.

- Visit [www.strongnonprofits.org](http://www.strongnonprofits.org) to build your organization's fiscal strength.
- Consider [Nonprofit Finance Fund's](#) tools and resources.
- Check out [Charity Navigator's Financial Health metrics](#).
- Read the [Finances section of the BBB Standards for Charity Accountability](#).
- Visit the [Donors Forum's Real Talk about Real Costs](#).
- Review the [AICPA Audit & Accounting Guide - Not-for-Profit Entities](#), American Institute of Certified Public Accountants.

## Help educate funders on the real cost of results.

### Engage in a conversation with your donors explaining the detriment of the Overhead Myth.

- Share this letter ([to the nonprofits of America](#)) as well as the original letter ([to the donors of America](#).) Both letters have a [Creative Commons License- Attribution-No Derivs CC BY ND](#), which means that you can use either letter to communicate the message to your donors. Both letters can be shared with your stakeholders however you like: e-mail them as attachments, put them on your website, share via social media, or print it out for your next board meeting.
- Read [OMB Circular A-122](#), Cost Principles for Non-Profit Organizations, which "provide that the Federal Government bear its fair share of costs except where restricted or prohibited by law."
- Engage in a dialogue with your stakeholders using tools such as [Charting Impact](#), [Financial SCAN](#), and [Impact Calls](#).

## Additional Resources

- [America's Charities' Snapshot 2014](#)
- ["Anatomy of the Nonprofit Starvation Cycle,"](#) presented by Jesse D. Lecy and Elizabeth A.M. Searing, at the November 2012 ARNOVA Annual Conference
- [Bridgespan Group's publications and tools](#)
- [National Council on Nonprofits' resources](#)
- ["The 'Overhead' Pledge,"](#) by Sue Dorsey, *PhilanTopic*, August 21, 2014

Additional resources and tools will be added regularly at:

[www.overheadmyth.com](http://www.overheadmyth.com)