



**UP NEXT MONTH**

Annual Giving USA Report



**HOW TO MEASURE SOCIAL IMPACT**

"When boards consider overhead expenses, they must examine the nonprofit's mission," says Ashcraft. "They must ask: How is this expense aligned to the mission and programs offered? Is it necessary for growth or innovation? What social impact will it have? How will the organization measure that impact against its mission?"

Nonprofits new to social impact measurement may access the Foundation Center's "Tools and Resources for Assessing Social Impact," which includes more than 150 tools, methods and practices. Locally the ASU Lodestar Center offers a Social Impact Measurement Certificate and other related resources.

[foundationcenter.org](http://foundationcenter.org)  
[lodestar.asu.edu](http://lodestar.asu.edu)



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# Overhead and the Nonprofit

Executives sitting on nonprofit boards are uniquely suited to help reframe perceptions about nonprofit overhead costs

by Richard Tollefson

► Today's nonprofits often find themselves looking over their shoulders. "They worry about the scrutiny or debate that may rage over their spending while, at the same time, understanding the critical need to invest in their enterprises in order to fulfill their missions," says Robert Ashcraft, Ph.D., executive director of ASU's Lodestar Center for Philanthropy and Nonprofit Innovation.

Historically, nonprofits have been held to "overhead" standards set by watchdog groups stating that about one-fourth of the budget could be spent on overhead (infrastructure, administration, fundraising) — or no more than one-third. If organizations stay within those parameters, they receive positive ratings and favorable public perception. Conversely, they receive poor "grades" if they don't.

The problem with this type of evaluation is multi-faceted. For starters, overhead is categorized differently among various organizations. As well, watchdog groups themselves don't use the same formulas as they create their evaluation methods.

Ashcraft points, also, to the wide range of nonprofits and the difficulty of evaluating them by the same standards. "Trying to clump all subsectors together — arts and culture, health, education, youth, environment — and applying a single ratio is not productive." Each has different needs, operational procedures and overhead expenses necessary to fulfill their missions.

According to CEO of the Alliance of Arizona Nonprofits Kristen Merrifield, overhead is just one part of the evaluation equation. "We should be looking at social impact and results-based accountability." She says the questions that *need* to be asked aren't just about overhead. They are: What are the results of the



way funds are managed? Is the nonprofit serving those whom it set out to serve? Is it increasing the amount of people served? Is it doing innovative things to fulfill the mission?

"We're trying to turn this huge ship that's been going in one direction — saying if the nonprofit doesn't have 10 percent overhead, they are obviously doing things wrong," says Merrifield. "That's just not true."

So then, how to change course when, according Ellison Research, 62 percent of Americans believe most nonprofits spend more than they should on overhead?

They key is board members, who serve as critical change agents for the nonprofit. "They are uniquely situated to help change perceptions," says Merrifield.

When board members are confronted with concern about nonprofit expenses, they should feel confident engaging in open dialogue about this evolving topic. "Be very clear, strategic and transparent about why you're making the investments you are," says Ashcraft. "Generally, when people understand and can analyze, they agree." ■

## Donor Dialogue

► To assist donors, the public and staff in understanding overhead expenditures, board members should:

**Be Aware.** Understand the nonprofit's recent audited financials, and if they don't exist, ask why. Does the organization do a financial review? Are financials presented and approved by the board at every meeting? Is there a finance committee or treasurer? How is the organization calculating overhead expenses? What is categorized as management and administration, programs and fundraising? Board members who understand the organization's financial intricacies can respond with transparency to constituents.

**Educate.** Peer executives, donors and staff can benefit from an understanding of nonprofit operations and expenses.

- Explain that the nonprofit designation is essentially a tax status. "Nonprofit doesn't mean an organization should not be earning a profit," says Merrifield. "Without profit, the doors close."
- Share articles and insight about the changing perceptions of overhead costs. Three organizations — Charity Navigator, GuideStar, and the Better Business Bureau Wise Giving

Alliance — are collaborating to educate funders and donors in a campaign called "The Overhead Myth."

- Make clear that the same principles of for-profit business apply to nonprofits i.e. hiring the best leaders, investing in technology, and accessing more capital leads to innovation and sustainability. In other words: putting money *in* is crucial to getting success *out*.

**Share.** Board members can bring creative solutions to their organizations. They can assist in securing pro-bono services. They can connect their nonprofits with training and resources. Consider [standforyourmission.org](http://standforyourmission.org), which teaches boards how to advocate, communicate and champion their nonprofit's mission. As well, the recently completed Arizona Nonprofit Economic Vitality Study includes a downloadable toolkit that helps boards and nonprofits share insight about nonprofit impact statewide. ■

For more on the Arizona Nonprofit Economic Vitality Study:

[phoenixphilanthropy.com/arizona-nonprofits](http://phoenixphilanthropy.com/arizona-nonprofits)  
[aznonprofitimpact.org](http://aznonprofitimpact.org)

