If you’re reading this, chances are pretty high that you or someone you know’s salary is considered an overhead expense—that is, an administrative and/or fundraising cost that goes into running a nonprofit trying to achieve its mission.

And despite Dan Pallotta’s viral TED Talk, the Overhead Myth’s two public letters to the donors and nonprofits of America, and the Nonprofit Council’s powerful new campaign, every day nonprofit sector professionals are still fighting the notion that overhead is a dirty word and something that nonprofits must avoid spending on at all costs. Evaluating nonprofits by how much they spend—or don’t spend—on overhead weakens nonprofits by forcing them to forego investing in themselves.

How can we as a sector communicate to our donors that focusing on the percent of spending that goes to overhead (the overhead ratio) doesn’t actually reveal an organization’s progress toward achieving its mission? Of course, nonprofits do need to let donors know how they use their money. But it’s time to take the conversation beyond overhead.

**Here are six ways your organization can play its part to help say goodbye to the Overhead Myth once and for all.**
1. Show Donors Your Unique Value

To say donors have many choices for their giving is an understatement. As of 2016, more than 1 million charitable organizations are registered with the IRS, and new nonprofits are cropping up constantly.

How is your organization uniquely positioned to carry out its mission? Are you the only nonprofit in your area that offers a certain program? Are you part of a regional or national organization with a proven track record? Do you offer a special level of expertise?

Understand and be able to communicate succinctly what makes your nonprofit stand out in the sea of organizations performing similar services. If your supporters can’t find out within the first few minutes of engaging with you, it may be time to rethink your communications strategy.

Tell donors and grantmakers what makes your organization different in your elevator speech, on your home page, in collateral you pass out during conferences, and especially in your fundraising efforts.

2. Demonstrate Ethical Practice

Nearly half of donors say they are concerned about how nonprofits use their donations. Ensure donors can support your organization with confidence by creating an impact section on your website that includes documents that demonstrate your transparency, such as your strategic plan, annual report, program activities, and governing board rosters. If you are with a larger organization, post an audited financial statement completed by an independent CPA firm as well as your IRS Forms 990. Linking to your GuideStar Nonprofit Profile can also help donors find additional information.

Ethics go beyond just verifying your legitimacy to donors, however. Treat your employees fairly by learning the new overtime rules, paying your interns, and opening the conversation on how your HR team can start to disclose salary ranges on job postings. Your organization can also take part in philanthropy’s ongoing initiative to advance diversity, equity, and inclusion by sharing its organizational demographics of gender, race and ethnicity, sexual orientation, and disability status on its GuideStar Nonprofit Profile.

49% Proportion of donors who are concerned about how nonprofits use their gifts.

20% Proportion of donors who are not sure who benefits from a nonprofit’s work.

— Money for Good 2015
3. Share Data about Your Performance

Measuring the difference your nonprofit is making is complex. But we still have to try. Share information about your goals, strategies, management systems, and governance processes with the metrics that best fit your organization by claiming and updating your Nonprofit Profile to the Platinum level, our newest and highest Seal of Transparency. GuideStar Platinum allows organizations to push past financial ratios to share progress and results metrics with millions—for free.

Each of GuideStar’s four Nonprofit Profile levels provides donors increasingly comprehensive amounts of information.

Visit GuideStar’s Platinum landing page to learn more and get started.

4. Manage Toward Results and Understand Your True Costs

Nonprofits commonly talk about the scope of the needs they’re addressing. Their primary focus, however, should be on showing the difference they’re making, or their outcomes. According to Leap of Reason, these changes should be measured and monitored, link directly to the efforts of your program, and serve as the basis for nonprofit accountability.

Once you accurately measure your results, it’s time to understand the direct and indirect costs of achieving your mission. Understanding your costs leads to benefits such as increased government funding, per the OMB’s Uniform Guidance issued December 2015. The OMB guidance states a nonprofit’s indirect/overhead/administrative costs are legitimate expenses that need to be reimbursed by states and local governments receiving federal funding as well as all federal agencies, at either a negotiated rate or the default of 10 percent of their modified direct total costs.

5. Show Your Board and Funders That Overhead Works

Ask the tough questions internally to make the most out of the overhead you are receiving—are we spending our money most effectively for the long term? If we shifted some programmatic expenses toward infrastructure expenses, would we be more sustainable and better able
to serve our mission over time? Are we already sufficiently investing in administration, and should retain the level of overhead we have?

Every organization has different needs and different ideal overhead costs. Share with your board past examples of what has happened when your organization didn’t invest in overhead, and compare them to positive outcomes that occurred when you did.

6. Educate Funders about the Real Cost of Results

Funders need to understand the truth if they are to change their behavior. Talk honestly with your funders (individuals, foundations, corporations, and government) about what it takes to do your work. Ban the use of overhead ratio pie charts in your organization and use meaningful performance metrics instead!

Increasing efforts are also being made to encourage grantmakers to pay for nonprofits operations as well as programs and services. A prestigious group of nonprofits and foundations have come together in the Stanford Social Innovation Review series Pay-What-It-Takes Philanthropy to say that a new grantmaking approach is needed.

Where to Go from Here

Busting the Overhead Myth requires work and support from the entire philanthropic sector, especially nonprofits working on the ground to achieve missions and improve lives. In the words of Christopher Anderson, former executive director of the GuideStar Gold-level nonprofit MaleSurvivor:

“The Overhead Myth does exist, and it really hampers the ability of organizations to make their stellar, outstanding work worth it in the long term in a way that benefits our society. When it comes to freeing up nonprofits so they can do what they do best, we need to get OUT of the mindset.

“When we leverage foundation and donor resources and expertise to help nonprofits do transformative work well instead of looking at a program by program basis, we’re looking at REALLY empowering great nonprofits that embrace entrepreneurial ideas.”
Additional Resources

1. Show Donors Your Unique Value
   - Millions of potential donors use www.guidestar.org each year as a resource to make informed giving decisions. As an exercise, pretend you’re a potential donor to your organization and use GuideStar Search to find nonprofits within your cause area and geographical region. Compare Nonprofit Profile pages. Do your mission, vision, and values stand apart from your competitors’? If not, it could be time to update your profile.
   - Once you establish what makes you unique, consider how to position your entire communications strategy so donors can learn exactly why your nonprofit is the best choice for their donations in five seconds or fewer. Methods for educating your donors can range from investing in video, building a donor-friendly website, creating a thoughtful social media strategy, and staying abreast of the best and most current content marketing practices.

2. Demonstrate Ethical Practice
   - Regularly inform stakeholders about your financial and programmatic results. This could take the form of newsletters, blog posts, or hosting Impact Calls. Loosely based on quarterly earnings calls held by publicly owned companies, Impact Calls are timely, interactive, and inclusive ways to bridge the gap between your leadership, media, and supporters.
   - Download GuideStar’s template for your own Impact Call. It includes an agenda, structured overview of the call, definitions of key topics, sample metrics for financials and programs, and more. Listen to some of GuideStar’s previous calls for context.
   - Check out the resources the National Council of Nonprofits recommends that aid in demonstrating accountability and transparency.
   - Share your board leadership practices by claiming and updating your GuideStar Nonprofit Profile to the Gold Seal of Transparency.
   - Study the BBB Standards for Charity Accountability recommended best practices on governance, finances, fundraising, and more.
   - Read Charity Navigator’s Accountability & Transparency methodology.

3. Share Data about Your Performance
   - If you run into trouble updating your profile, listen to our work session, Showcasing Your Results with GuideStar Platinum.
• Join the GuideStar Community to talk about Platinum with others, or request to contact a GuideStar representative

• Check out PerformWell’s resources on performance management.

4. Manage Toward Results and Understand Your True Costs

• Start off by adopting a performance-management framework for your organization. Look at “The Performance Imperative” on the Leap of Reason website.

• See this graphic re-visioning of nonprofit structures and programs by Nonprofit Assistance Fund to help understand true costs.

5. Show Your Board and Funders That Overhead Works

• The Bridgespan Group’s article on the Nonprofit Starvation Cycle makes the case that “organizations that build robust infrastructure—which includes sturdy information technology systems, financial systems, skills training, fundraising processes, and other essential overhead—are more likely to succeed than those that do not.”

• Let FORGE’s story, Nonprofit Emaciation: Confessions of a Do-Gooder Who Starved an Organization to Death, be a warning to your board and funders.

6. Educate Funders about the Real Cost of Results

• Encourage unrestricted gifts from funders and donors. This action guide from Grantmakers for Effective Organizations is an excellent resource to help grantmakers understand why general operating support is important, alongside numerous examples of grantmakers providing this kind of support and what they’ve learned by doing so.

• Use the Overhead Myth outreach tool kit to help educate your donors.