



## Nonprofit Overhead — The Price of Providing Impact

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This past week I read an editorial from the CEO of the ARRL, the national amateur radio association. In it he directly addressed an open letter that complained about the cost of his organization's operations. That same open letter went on to suggest that the ARRL should operate like a local ham radio club.

Of course, that comparison, national association versus local volunteer operated club, is ludicrous. But it reflects the simple and sometimes clueless perspective that many potential donors, supporters, and even members have about nonprofit organizations.

After all, they say, you're supporting a cause. Donations or other support should go directly to that cause. How that support is to happen, from soliciting and collecting donations to delivering program along with handling the growing regulatory burden, without funding is ignored or perhaps not fully recognized.

### The Way We Think About Charity is Wrong

I like the insight that Dan Pallotta, founder of AIDS Rides, offers in his *TED Talk* titled "[The way we think about charity is dead wrong.](#)"

He states that too many nonprofits are rewarded for how little they spend—not for what they get done. He correctly points out that instead of equating frugality with morality we need to

reward nonprofits for their big goals and big accomplishments, even if that comes with big expenses.

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His comparisons between for-profit and nonprofit really hit the mark. For example, if Disney produces a \$200 million movie that flops, no one calls the Attorney General. But if a nonprofit runs a \$1 million fundraiser that fails to produce a 75% profit in 12 months, your character is called into question.

## **The Nonprofit Starvation Cycle**

The *Stanford Social Innovation Review* takes on this topic in their article [“The Nonprofit Starvation Cycle.”](#) They point to a vicious cycle of nonprofit organizations inability to develop infrastructure and the resulting declining ability to serve their missions.

Only in a nonprofit world would the fact that investment in fundraising increases the amount of funds available for the cause be turned on its head. Instead, simple logic is replaced with a misguided assumption that “overhead” either does not serve the mission or, even worse, siphons funds away from the mission.

## **Getting What We Pay For: Low Overhead Limits Nonprofit Effectiveness**

The *Center on Nonprofits and Philanthropy* provides further insight into this issue with their paper [Getting What We Pay For: Low Overhead Limits Nonprofit Effectiveness](#). The big quote for me is “To deal with inadequate funding for administration, organizations resort to the strategies of *low pay, make do, and do without* that diminish organizational effectiveness.”

Are all employees really overhead? Aren't they all serving the mission in whatever task they accomplish that supports the organization? And, do you really want the lowest cost employees working for your nonprofit? Ask yourself the question: Would any for-profit organization demonstrate this level of contempt for optimizing their operation?

Nonprofits are no different in their need for the best and brightest as well as solid up-to-date business systems that run every aspect of the organization. Consumers expect and get the very best service every single day from Amazon to Zappos. They are not going to cut any slack for a nonprofit in their expectations of top level service.

## Make a Lasting Impact

I'll make one final comment—making a lasting impact doesn't come on the cheap. Instead it takes highly competent staff, compensated at fair rates, with tools and systems that facilitate their work. All that, of course, requires funding. That funding needs to be at a level to support both mission and organizational infrastructure. You can't possibly have one without the other.

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