



Overhead vs. Investment

by Julie Mikuska

The charitable sector is often critiqued on a scale that measures how much of their budget goes to “overhead” as opposed to the “cause.” The reasoning is that those who direct the most money to the cause are benefiting the most people. Low overhead = good charity. High overhead = bad charity.

Charities and other not-for-profit organizations are especially criticized for spending money to raise funds, including hiring professional fundraisers and support staff, developing the infrastructure to support philanthropy and engagement, and communications. The spending is seen as an expense, rather than an investment. And as a result, organizations find it hard to grow, which makes it hard to achieve their missions.

In his recent book, **Charity Case**, and very recent [TED Talk](#), Dan Pallotta makes the case for a new way of thinking about charities, one that makes it possible for the whole sector to grow.

He says in the talk that nonprofit organizations labour under a belief system that keeps them from increasing their value, and therefore “keeps them tiny.” There are two sets of rules, he says, that discriminate against the nonprofit sector in five ways:

- *Compensation* – the idea of paying people well to help others is abhorrent
- *Advertising and marketing* – donors don’t want their funds to go to advertising even if advertising can bring in more money
- *Risk-taking* to pursue new ideas for generating revenue – society expects instant profit to the nonprofit, and there’s low tolerance for new ideas that may fail
- *Time* – there’s no appetite for nonprofits to take time to build
- *Profit* – nonprofits can’t pay people profit to access their capital, so they are shut out of the capital markets

Pallotta argues that rather than overhead taking away from the cause, it actually is part of it, especially if it’s used for growth. He says that rather than looking at what portion of the pie is overhead and the rest for the cause, why not look at increasing the size of the pie?

What does it matter that a cancer charity has a 40 per cent overhead if it raises multi-million dollars for research? Pallotta says don't confuse morality with frugality. He likens it to a bake sale that has 5 per cent overhead but only raises \$71 for charity.

Watch the TED talk and share it with others in your organization. Start thinking about investing and not about "overhead."

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