



Transcript

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Overhead

Co-Hosts: Brittany Wilson (B) and Nia Wassink (N)

B: I'm Brittany Wilson.

N: And I'm Nia Wassink.

Both: And this is, The Nonprofit Reframe

B: Together, Nia and I have over thirty years of nonprofit experience. We've worked the program side, the business side, and everything in between.

N: We are reframing the nonprofit experience by challenging the status quo because we know that nonprofits and their staff are undervalued, under-resourced and unrelenting.

B: Welcome back everybody to the Nonprofit Reframe

N: Today, we are going to be discussing the overhead myth, but I need to say put on the record right now that Brittany and I are about two inches away from each other. We're having some technical difficulties with some of our mics, so we're trying to get over the giggles a really hard right now.

B: Anybody who said that to create a podcast you just need to buy some microphones and start talking is a fucking liar! This is a process people and we are learning. It is a learning curve, so you'll notice, potentially some of our episodes sounding clearer than others, but we are working out the kinks and one way we are doing that today is by sharing a microphone.

N: Just looking deep into each other's eyes.

B: We are so close right now!

N: But the quality of the audio does not impact the quality of the content!

B: We are doing this for you listener! So that we're coming in loud and clear and we don't sound like we are coming to you live from down the hallway.

N: All right, let's jump in. So we are talking about overhead, Brittany, what is it?

B: Such a great question. Overhead typically means it is the cost of your administrative fees, along with your fundraising expenses, divided by all your expenses.

N: Yes, that's the overhead ratio.

B: That's ratio yeah. So when people talk about overhead for nonprofits, they typically think salaries.

N: Yes, they conflate those two issues and assume that paying people to work at a nonprofit is somehow overhead.

B: Exactly. We want to give you a little background on where today's episode, where the inspiration came from. I was listening to another podcast, which we often do. We love the podcasts.

N: Highly recommend.

B: Highly recommend, and I was listening to this one that I listen to regularly, weekly. I was so excited because she had

on the CEO of another big nonprofit organization. Shouldn't say another, we aren't a big one. Anyways it was a big nonprofit organization called Charity Water, have you heard of it?

N: Of course.

B: Yes! Great organization, does great work bringing clean water to millions of people across the world. He was giving kind of the history of how it got started. I will spare you all the details on that because you can, he has a book out.

N: Oh yeah. And lots of talks and interviews.

B: Yeah, but the origin of charity water came from the fact that he was working as a night club promoter for many years I think for like ten years before he decided that he wanted to change career paths, do some good in the world. And he ended up serving for a nonprofit for a couple years, giving medical aid to people in Africa. And what he found when he was there was that A. they didn't have the resources they needed they had more people that needed help then they had doctors and nurses to be able to provide it.

N: Don't we all?

B: Exactly, and that the majority of the illnesses that people were presenting with could like the cause of that was the fact that they didn't have clean drinking water. So I love his thought around "Okay, here I am and we are serving the cause, no excuse me the effect, but let's get back to what the cause is and see if we can help change that. So he decided that he was going to start his own nonprofit, I have varying views on that, but we'll keep going. That's a difference episode. So he was going to start his own nonprofit and the thing that he had going for him was that because he was a night club promoter for so many years, he had a rolodex. That's an antiquated term, but I'm going to use it. A rolodex of high profile people and his exact words were that it included Mick Jagger. So of that level right? Celebrities, high profile, huge, huge, huge, huge, capacity! And he was going to call on these people to help support his nonprofit. But, one of the things that he ran into was when he started asking his friends and the people in this list, "Hey, I'm gonna start this nonprofit! I'm gonna bring clean water to people around the country or around the world, excuse me. Is that people did not, they inherently did not trust nonprofits. So he stated a statistic, I think it was from 2006, where he claimed that 42% of Americans did not trust nonprofit organizations. Do you have one that's any more current?

N: Well I know we had a study in 2018 that came out about folks trusting charities and therefore whether or not they make donations. And one in five Americans said that they highly trust charities, meaning that 80% do not.

B: So that's a problem, right?

N: Big problem!

B: Big problem! And so here he had these people with great wealth, but they didn't trust I don't know if they didn't trust him, or they didn't trust you know that the fact that it was a nonprofit. So he felt like the way to combat that, was to create an organization that was a hundred percent transparent. Great, right?

N: Right, yeah. Love transparency, absolutely.

B: Awesome. But, the other thing that he decided to do was create an organization where he told donors that a 100% of their contribution went to pay for program, for services.

N: Of course, so helpful.

B: And we know that that's not realistic. So he's on this podcast and I'm listening to and he starts talking about how they got into trouble, financial troubles, surprise. And that he had created two bank accounts and that one bank account was paying for all of their overhead and another bank account is where all donations were coming into. They go directly, directly into this account which would then go out to the programming, so he could honestly say that 100% of somebody's gift was going to fund the program. Now, they got into some financial trouble because you have to pay people in order to keep them working.

N: No way! Oh my gosh, I had no idea.

B: Because we're going say this a million times on this podcast. Nonprofits are guess what?

N: What?

B: A business!

N: No Way!

B: So you actually have to pay people to get them to work, and to stay, and to be able to make a living. And so he was having trouble doing that, so what he did is he called upon a really elite group of people which he named and it included very big names. And he got a 130 families or something like that who agreed to give money yearly to pay for

the overhead costs. Okay?

N: I'm with you.

B: You got it so far?

N: I'm untrusting of this model, but I'm with you.

B: All right, so I'm getting to the point. So he's a podcast and I'm waiting for him to maybe say how unrealistic his idea was to have 100% of donations go to programming and how he learned his lesson. Instead he says we found this loophole because I know rich and famous people and I was able to get them to give just to the overhead. So we have 130 families that are making the magic happen with all the administrative costs and fundraising costs. And because we're able to keep the promise that a hundred percent of donations are going to programming, we have a trusting organization and that people feel confident giving to.

N: Oh my.

B: And my first thought is, "Well you just fucked the rest of us."

N: Exactly, you fucking asshole!

B: I know what he's trying to prove...

N: Exactly.

B: But, it's not realistic!

N: And it's not helping all of the other organizations that his most certainly relies upon to actually get the work done.

B: He's perpetuating this myth that we're talking about today. In that nonprofits either should be paying extremely little to go towards their administrative and fundraising costs or according him none at all.

N: Right. Well and I think actually this gets back to how this whole thing started. I think it was really well intended you know we had these charity watchdogs who came together and said, "We need to allow lay people to better understand nonprofits, so here's a quick way. If you add up the administrative expenses, you add up the fundraising expenses, you divide it by the total, you've got this great number. And if it is under 25% percent they are doing well with your money. And that was such an easy solution, when we actually know that understanding nonprofits and the work that we do is not easy. And so it created this issue that has now been perpetuated by not only by these charity watch dogs, but now within organizations themselves. I mean how many annual reports you open up that say 93% of every donation goes directly into programming? And that just reinforces a lack of investment in absolutely necessary infrastructure

B: And people

N: And People!

B: Investment in people!

N: And then also, quite frankly, it ends up causing organizations to get a little funny with the numbers because the way those ratios are calculated is based on every single expense that a nonprofit puts on the books having these account codes and these classifications. And organizations get to say whether it was a fundraising expense, a program expense, an administrative expense. And the more we put pressure on them to spend less and less and less, the more they are apt to shift what those numbers look like. And they end up playing a game with them, which doesn't improve transparency, ends up being a shit ton of work for organizations, and doesn't help anybody understand what's actually happening.

B: So that's just how controversial this topic is. To the point that nonprofit experts or experts in the field are saying, "You know what if you work for a nonprofit, don't even bring it up, don't bring up overhead. Even if you're trying to educate your donors on the "myth" of it, it's better just not to talk about it at all.

N: I just actually read a study about that exact fact. They had folks give to a mythical nonprofit and then told them what their overhead ratios were and then ask them again and you saw a significant decline, even if it was within what you know that those benchmarks for the 25% are. As soon as you brought it up, people were reminded that they distrust nonprofits and therefore gave less, so as a sector this is our call to stop fucking bringing it up at all.

B: And/or let us bring it up

N: Yes!

B: And share this episode with people. I mean because I just want to get rid of it altogether!

N: Exactly, It tells us nothing useful about what that organizations actually doing!

B: I just want there to be a better understanding of how nonprofits work, so that we're not sitting here saying, "Okay,

we're not going to give you this money because you're spending it on people." When that's how the work is happening people!

N: Yeah, how do you how do you think that we're delivering lunches? By robot? No, we have people actually sitting there with the kids, making sure they have lunch. That is how the work is done.

B: And the catch-22 is that if you want to be able to trust nonprofits more, to have better qualified people running them, then you need to be able to pay them a living wage so they'll actually keep their job.

N: Oh my gosh, yeah. We'll have a whole episode on that I'm sure. My biggest pet peeve right now is how we end up paying so little for our staff at nonprofits, that they end up being recipients of our services because they need subsidized support. That is fucking ridiculous and I recognize that it's not just on the nonprofits, we we've got all of these forces working against us and working against paying people well, including this expectation that we don't pay salaries.

B: And if you're in the nonprofit sector and you're nodding your head and you're agreeing to all this, you should listen to the TEDtalk by what was his name?

N: I have no idea.

B: What?

N: Which one are we talking about?

B: The overhead myth!

N: Oh, Dan Pallotta.

B: Dan Pallotta, thank you. Who really was kind of a pioneer bringing this conversation to the table for everyone and putting a spotlight on it. And you know his TEDtalk is so amazing because it really kind of breaks down what is more helpful, the way that we're running right now? What is more helpful? Actually working for nonprofit or working in a for profit making a ton of money and being able to contribute generously back to nonprofits and that's sad.

N: Yeah, absolutely. And that's why were seen the millennial work force entering into nonprofits and leaving within two years.

B: And then going and working for a for profit organization. We're hoping, us still in the nonprofit industry, that they remember us when they're making their millions of dollars or even hundreds of thousands or just six figures. That they will remember us and give money back.

N: Exactly, exactly.

B: So, what are our takeaways?

N: Well I think, it you know that the whole reason that this became an issue was because of a lack of understanding of nonprofits and wanting to find a measure of support. You know, how to know that a nonprofit is doing good. I think that you know the charity watchdogs who initially came up with this have since come back with their Mea culpa. They have apologized, they've said why this is wrong and we as nonprofits, as donors, as philanthropists, need to get to this place where we just trust nonprofits. We just trust them that they are doing the work, that they're using our money well. And we don't even look at their financial statements to confirm and feel like we have some way of better understanding them through that.

B: And really, I mean a take away that I would like everyone to have, is that when you hear these stories about these big nonprofit organizations, like charity water. Who, you know, to his credit found a way to make it work and they're doing great work in the world. But that is not the reality of the nonprofits that are working in your hometown. It's just not. We do not have a rolodex of the Mark Zuckerbergs of the world, to be able to call on them to pay our administrative staff, so that 100% of your donation can go towards the "work".

N: Right.

B: It's all the work, the whole organization is the work. If the organization didn't exist, the work wouldn't exist. And so you have to support the entire organization and if you're in a place where you can get to know the people, that's my recommendation. I always say people give to people. You have to have a heart for the mission, absolutely, but when you get to know who's doing the work, whether you take a tour, whether you get lunch with the CEO, whether you volunteer, get to know the organization and the people working there and then ultimately you'll find the trust. We all have boards of directors that have fiduciary responsibility over organizations, find out who the board chair is, talk to them, become a part of a board, serve on a board. Get to know how these, how the structures of nonprofits work and then have trust in the mission.

N: Uh you missed a really important hashtag there.

B: Which was?

N: It's all the work

B: It's all the work

N: It's so true

B: #itsallthework

N: Thank you! I think the other side of this is, as donors are looking to understand organization, this is where reading impact reports, annual reports, that explain the outcomes and the real impact, is going to be increasingly important. So if you are an organization wondering whether or not you should put out that Annual report right now for 2019. I don't even know what year it is! Do it! I mean that is a really important communication tool for your donors to understand what work you're doing and why their dollars matter.

B: I would also say lastly, that if you are a donor and you're considering giving to an organization, a great question to ask them, I mean literally call them up and ask them what lessons have you learned from the last year and how are you changing and improving upon what you've learned for your work in the next year? Because ultimately I think that that is a real, a real guide to how effective nonprofit are if they are constantly learning and adapting and putting that into practice.

N: I would also say to any donor foundation etc give general operating support! Stop restricting fucking gifts!

B: Stop restricting gifts. We know you have a heart for whatever part of the mission or whatever part of the work, but like we just said all the work, and if they don't have to, if they can't pay the right people to be there to put the work into action it's never going to happen anyways.

N: And I should explain that real briefly. Restricted gifts means they can only be spent on a very specific program, project, purpose, where the general operating gift can be spent on whatever the organization needs. And that's what is truly going to help us create more agile organizations that are able to respond to the very quickly changing landscapes within which that they work. They need those dollars to respond to whatever is happening in that moment, on that day.

B: Well I think that about covers it.

N: Overhead, stop giving a shit.

B: Till next time.

N: Bye!

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