



## How successfully has your nonprofit shifted from overhead to impact?

In the not-so-distant past, charity watchdog groups such as GuideStar, Charity Navigator and the Better Business Bureau's Wise Giving Alliance were notorious for giving overhead ratios significant weightings in their rankings of not-for-profits. While such a practice can help potential donors weed out spendthrift organizations, it also tends to unfairly penalize nonprofits making reasonable expenditures for current needs and strategic investments for the future.

In recent years, nonprofits have been urged to put more focus on transparency, governance, leadership and results. For many nonprofits, funders and watchdog groups, "impact" is now the primary measure of an organization's effectiveness. If it hasn't already, your nonprofit needs to ensure that it has made the necessary cultural changes and communicated the importance of impact to its supporters.

### Possible challenges

"Impact" generally is defined as the long-term or indirect effects of measurable outcomes (such as the number or percentage of individuals served). It typically refers to broader societal change and can be much less predictable than outcomes.

Hopefully, most of your donors may now use such impact-based yardsticks as "What difference does this organization make in our community?" But, while such a shift of perspective is good news, it may mean that your nonprofit needs to make some cultural changes — including at the board level. For example, you might have to convince your board that spending more on such items as executive salaries and marketing programs will produce better outcomes and broader reach over time.

## Communicating with stakeholders

Although there's no proven relationship between overhead and a nonprofit's effectiveness, some donors, funders and members of the public continue to use nonprofit expense ratios to compare organizations. Communicating the value of impact can be challenging.

One practical solution is to revise such publications as your annual report. Compliance with Generally Accepted Accounting Principles requires nonprofits to report costs in one of three functional categories — program services, general and administrative, and fundraising. But there's no reason why you can't provide supplemental financial statements or break out administrative items to tell how they were used to enhance programs and ultimately affect lives.

## Advice for change

If you're unsure about how much your nonprofit should spend on overhead and how it can best deploy resources for meaningful impact, contact us. Times are changing — for the better — and your organization needs to change with them.

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