

The Worst Question to Ask About Charity

by Dan Pallotta

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The question is, “What percentage of my donation goes to the cause?”, also known as the admin:program ratio, the “efficiency” measure, or the overhead ratio. Whatever you call it, it’s hopelessly flawed, widely abused, utterly useless, a pathetic substitute for meaningful information about a nonprofit’s work, inept at exposing fraud, and a danger to human life. In my next few posts I’ll deconstruct these many failings.

For today, I simply want to shine a light on how widely accepted and applied it is, that we might appreciate just how much opportunity it has to do its damage. Why? Because there is the widespread illusion among those of us who read the Stanford Social Innovation Review and all the latest articles on venture philanthropy that the world has moved on to more sophisticated measurements of nonprofit work. It hasn’t. Policy makers and thought leaders at the highest levels – not to mention the general public at large – 1) never consider asking a question other than What percentage of my donation went to the cause, 2) are not aware that there’s another question available to them, and 3) have never heard of the Stanford Social Innovation Review. We have a long way to go.

All three of the watchdog agencies – Charity Navigator, the Better Business Bureau, and the American Institute of Philanthropy – prioritize the measure in their charity profiles. All set some guideline for it. And all penalize a charity for falling short of those guidelines. In turn, most of the states’ attorneys generals’ websites tell consumers to inquire about a charity’s overhead percentage and/or to go to one of the watchdogs to ascertain it. The media consistently tells consumers to visit watchdog websites to find out about overhead ratios before donating (the Better Business Bureau site sees huge spikes on the occasions of tsunamis and other disasters). And, in a tragically ironic dynamic of circular reinforcement, most of the major charities,

knowing the public demands low overhead ratios, place the watchdog seal of approvals (for which they must have low overhead to qualify) on their website homepages as badges of low-overhead honor.

In 2002 the Better Business Bureau Wise Giving Alliance commissioned a study that asked respondents what information they wanted when considering donating to a charity. Seventy-nine percent wanted to know what percentage of their donation went to charitable programs. Remarkably, only 6% wanted to know if the donation would make a difference. How can that be, you ask? Well, the media, the watchdogs, and the sector itself have done an amazing job of training the public to think that the two things are the same, i.e., that if a charity has low overhead, it must be making a difference. Major studies on the relationship between organizational strength and impact find otherwise.

A 2008 Ellison Research study showed that 62% of Americans believe charities spend too much on overhead. In Paul C. Light's 2008 NYU study, 70% of respondents said charities waste either "a great deal," or "a fair amount of money." Why would they feel that if they weren't asking about overhead ratios all the time, right? I was in the WGBH green room with a prominent Massachusetts political official prior to an interview on my book recently. When I told him it was about charity he glanced left and right as if about to divulge a state secret and quizzed me, "You know what question I always ask before I give to charity?" "Let me guess," I thought to myself. "What percentage of the money goes to overhead," he said with a confident nod.

I won't rest my case on an anecdote, but try it yourself. Ask a couple of your sophisticated friends what question they ask. Or ask yourself what you think they'd say if you did.

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