

Real Talk about Real Costs and Nonprofit Overhead

Presenters

Jan Masoka, CEO, California Association of Nonprofits
Nancy Jamison, President and CEO, San Diego Grantmakers

Topics Discussed

Nonprofit overhead continues to be a topic for the nonprofit sector. Typically, funders won't pay for overhead costs related to salaries, rents, and operational costs, however, without these essential components nonprofits cannot grow or retain quality staff, which results in their inability to positively contribute to the nonprofit ecosystem.

In this session, presenters spoke about two parallel efforts that have brought nonprofit overhead to the forefront of the sector. For philanthropy, Nancy Jamison, President and CEO of San Diego Grantmakers, spoke about their work with other grantmaking associations on the *Real Cost Project*, the result of a statewide effort that has recently completed its first phase focused on how to increase the number of funders who will fund overhead. For nonprofits, Jan Masaoka, CEO, California Association of Nonprofits (CalNonprofits) shared their work in leading *The Nonprofit Overhead Project* which focuses on government funding and educates the sector, conducts research, addresses public policy, and generates opportunities for continued dialogue in order to gain more momentum. (Jan Masaoka's powerpoint slides are available [here](#), and Nancy Jamison's are available [here](#).)

Key Issues Discussed

The audience expressed a strong desire to continue the overhead conversation and for funders to support overhead. This was accompanied by questions related to metrics and how to develop a compelling case for overhead funding. Both presenters encouraged organizations to continually look for relevant data and information to help create metrics that work for their sector, but cautioned not to solely rely on data. Jan mentioned that the nonprofit community is in the business of human beings and it can be very difficult to understand changes. Nancy explained that it is not always about the measurement but the process and that some subsectors are more measurable than others and some programs take years to measure impact. This vein was continued with an audience member suggesting that the sector develop standardized metrics that all organizations can use. Jan and Nancy commented that this would be difficult since there is no "one size fits all approach" and overhead costs look different across the sector.

One audience member suggested that overhead funding challenges may be compounded by too many nonprofits in the sector causing overlap and redundancy. He also commented on the lack of funding for R&D and an inefficient use of technology. Jan and Nancy explained that it is a complicated issue and that funders have different goals. Nancy mentioned that although the funder community is interested in collaboration and mergers, philanthropy is still trying to figure out what role it should play. Jan mentioned that some services cannot be accomplished using more technology (e.g. mentoring), and that larger organizations have more overhead and internal requirements (e.g. HR, audits, etc.). She mentioned that mergers result in slightly less donations because larger organizations receive less money than smaller organizations.

Key Takeaways

As a key takeaway, Nancy identified several barriers to change that were identified in the *Real Cost Project*:

- Institutional – program focused mindset, lack of collaboration, lack of authenticity
- Cultural – overhead is “bad”, mindset that nonprofits do not know how to operate like a business, resistance to redefining impact and measuring effectiveness
- Practical – lack of shared language, established practices and models, understanding of nonprofit financial management, skills and training, and tools for measuring outcomes

Another takeaway was related to the need for nonprofits to message their impact in ways that matter to different types of donors (i.e. stories, outcomes, etc.). The messaging could positively contribute to strengthening the nonprofit sector and increasing the quality and delivery of services. Additionally, it was noted that there is an obvious need for more education about what overhead really is and greater consistency in its definition and usage. This is true for how funders view overhead in programming and for how nonprofits report it externally (e.g. IRS 990).

Ideas and Actions for the Future

As the sessions came to a close, Jan and Nancy both agreed that a new approach to funding is needed and acknowledged that work still needs to be done to figure out what will it take to get there, what are the appropriate outcomes, what does overhead really cost, and what role do funders want their money to play. Nancy used the example of providing backpacks to underserved students by saying that, “it’s not just about buying the backpack, but funding the infrastructure behind the backpacks”. She offered that the *Real Cost Project* identified some key elements that must be present in order for the conversation to continue such as:

- Executive buy-in – change happens at the top
- Engaging grantees in conversation – what it really takes to fund overhead
- Training/Capacity Building/Resources – common definitions, toolkits, financial literacy

Jan and Nancy offered some tangible ways the sector can move the conversation forward. Jan warned that “conversations may not be enough”, and argued that “laws are more effective at change” which trickles down to funders. She also emphasized that advocacy is important to ensure laws are being followed and that nonprofits and philanthropy help to develop new laws. Both presenters agreed that any movement needs to be real and authentic. Nancy shared a quote from the Irvine Foundation’s CEO Don Howard who said, “at a minimum we need to have conversations with our grantees about real costs. We must create real value not just fund programs”.

Summarized by

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