

## It's time for donors to “see overhead as core mission support”

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In March, the Minnesota Council of Nonprofits collaborated with the Minneapolis-based Nonprofits Assistance Fund to co-host a conference on financial sustainability for nonprofits. The conference was a sell-out. We had the opportunity to ask Kate Barr, executive director of the Nonprofits Assistance Fund, about the topics of her keynote speech: overhead and outcomes.

**KB:** We've been hearing calls so often from donors and grantmakers for nonprofits to measure their outcomes. Well, financial outcomes are important too. Nonprofits are very conscious today about building solid business models to achieve their missions. So at the conference we talked about the need to break down the silos and bring financial results together with mission-related results. Part of that mindshift requires measuring not only program outcomes, but also financial outcomes.

**Council of Nonprofits:** What role does overhead play in reporting outcomes?

**KB:** It's time for nonprofits and their donors to look at overhead costs not as an expense but as “core mission support.” Ironically, it takes time and resources to measure efficiency and effectiveness so “overhead” is needed to effectively measure outcomes. That means that judging a nonprofit based on what percentage of its budget is overhead risks sending the message that measuring outcomes is wasteful! Basing a judgement on the amount of overhead spending doesn't indicate how well the nonprofit is serving its beneficiaries or solving problems in the community. But a nonprofit indeed needs to spend on “overhead” in order to know whether it is being effective!

**Council of Nonprofits:** How should we view “overhead” expenses?

**KB:** Expenses that are accounted for as “overhead” are expenses related to critical functions of any nonprofit, such as governance, strategic planning, accounting, and development (fundraising). The expenses required for evaluation and measurement are usually also accounted for as administrative expenses or “overhead.”

**Council of Nonprofits:** Spending money on good governance and evaluating outcomes sounds as if it should be celebrated, not a cause for shame or blame. We're starting to hear about nonprofits replacing “overhead” with the phrase, “core support.” Is that a good idea?

**KB:** It's a good idea for all of us in the nonprofit world to educate our supporters that overhead is indeed core to mission. If we want nonprofits to have solid accounting systems, strong boards, and the ability to

evaluate and share the impact of their good work, then we need to do a better job communicating that “overhead” is simply what it costs to grow and maintain an effective nonprofit.

**Council of Nonprofits:** What else does it take to grow and maintain effective nonprofits?

**KB:** In the view of the Nonprofits Assistance Fund, being sustainable is the ability to attract the resources needed to carry out mission-focused activities in the present, and to develop the organizational and financial capacity to be effective in the future. While there are many factors to consider, it comes down to three components. First, and most important is to deliver great programs that are effective and relevant for whoever or wherever the nonprofit works. Second, be attentive to maintaining the business model that works for the nonprofit. Conversations about nonprofit finance are often focused on the income and questions about how to attract more donations or grants, but business models are much more than income. What does it cost to deliver great programs, what is the infrastructure required to support development, program, organizational health and accountability? What capital is needed for buildings, technology and working capital? And third, for nonprofits to be sustainable in the future, they have to be ready and able to adapt to changing times in their community, in the economy or policy environment, and to market shifts.

**Council of Nonprofits:** Where does measuring outcomes fall in the sustainability journey?

**KB:** Effective nonprofits develop a process to understand and evaluate their success. Identifying how and what to measure, and determining useful benchmarks. It’s hard work. We often say that nonprofits have a “double bottom line.” Measuring the financial bottom line is usually much more straightforward than the mission bottom line. Even though it’s complex, it’s important for nonprofits to gather information, track progress, make course corrections and continually keep an eye on progress towards whatever they define as “success.”

*Kate Barr serves as the executive director of the [Nonprofits Assistance Fund](#) [1] in Minneapolis, MN. This post is based on an article that originally appeared in the Star Tribune, [Q&A with Nonprofits Assistance Fund's Kate Barr](#). [2]*

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