

Fundraising and Administrative Expenses

ELEVATOR SPEECH

Charities and nonprofits are working to solve some of the most difficult issues facing society and to improve our quality of life. They need the right tools to get the job done and, like businesses, have hard costs. It's important they are transparent and accountable for how they use their resources and we need to remember that without these investments, effective programs and services would be impossible to deliver. Real impact requires real investment.

CONTEXT

A 2013 Muttart Foundation survey revealed that nearly three-quarters of Canadians believe that charities spend too much on salaries and administration. Similarly, 52% said charities spend too much on fundraising. The survey also reveals a significant and increasing gap between Canadians' views on the importance of this information and their views on how well charities provide it.¹ This situation has likely been exacerbated recently with the emergence of charity ranking and rating organizations that often rely on low overhead expenses as a measure of success.

KEY MESSAGES

- It's important that Canadians have good information about the charities they support including financial details. However, it's difficult to evaluate an organization on its balance sheet alone.
- Donors should be cautious about using an organization's overhead spending as the sole gauge to effectiveness.
- Research indicates that spending too little on infrastructure can be counter-productive.²
- Given that charities vary enormously in their purpose, size and scope there is not a standard ratio that can be applied throughout the sector.
- The bottom line is that real impact requires real investment.

POINTS TO CONSIDER

Administrative expenses reflect the real cost of operating an organization and are essential to fulfilling its mission. These include:

- ensuring good management, including financial systems, insurance, IT, recruitment of staff/volunteers, good governance and communications with stakeholders;
- everyday essential items such as rent, electricity, hardware, software, salaries, travel, etc.;
- being transparent and accountable, including the production of annual reports, financial

statements and audits, program evaluations and complying with relevant legislation; and,

- providing a safe environment for participants and beneficiaries, such as screening staff and volunteers who fulfill direct-service roles.

Similarly, there are a number of factors which affect fundraising cost ratios:

- the age, location and size of the organization;
- the popularity and public awareness of its cause/mission;

¹ [Talking About Charities 2013, The Muttart Foundation, 2013.](#)

² [The Nonprofit Fundraising and Administrative Cost Project, Indiana University, 2004.](#)

- the stage of the fundraising effort — for example, a multi-year fundraising campaign will often have greater start-up costs that only yield dividends as the campaign gains momentum; and,
- the type of fundraising — for example with gaming or lottery activities, provincial laws govern prize payouts, and may require a minimum percentage of revenue to be allocated for prizes. This means that, even though the

net amount raised is significant, the fundraising ratio will appear to be high. Similarly the cost to run a special event will be likely be higher than a major gifts program but the event may yield other benefits such as engaging current and prospective donors.

To better understand the context in which the fundraising ratio is calculated, please see this article [Fundraising costs: use context and caution in dialogue](#).

WHAT SHOULD DONORS LOOK FOR?

Given that the overhead ratio is not a good measure of effectiveness, donors should consider other factors, such as good management practices, belief in the charity's mission and the organization's impact. When looking at fundraising, donors should consider:

- if the charity participates in Imagine Canada's [Ethical Code](#), has been accredited through its new [Standards Program](#) or other accreditation body;

- whether the charity follows the requirements of the [Association of Fundraising Professionals' Donor Bill of Rights](#), which lists the ten expectations donors should have;
- signs of consistent management and stable costs over several years; and,
- whether the charity allows access to its most recent financial statements and lets people know if its fundraisers are volunteers, staff members or hired solicitors.

IMPACT IS KEY

If you were presented with a list of all the teachers in a school and the amount of money they spent on their classrooms would you automatically assume the teacher who had spent the least was the best? Likely not — you quite rightly would want additional information such as how well the students did on tests, how many graduated, etc. Similarly, it is difficult to evaluate charities and nonprofits without additional contextual information.

charity watchdogs often place excessive reliance on financial indicators. Of particular concern to us is the use of overhead cost and fundraising cost ratios as stand-ins for measures of program effectiveness. No organization in our study was an extravagant spender on fundraising or administration. Yet contrary to the popular idea that spending less in these areas is a virtue, our cases suggest that nonprofits that spend too little on infrastructure have more limited effectiveness than those that spend more reasonably.”³

“Absent good, comparative information about program or mission effectiveness, donors and

³ [The Nonprofit Fundraising and Administrative Cost Project, Indiana University, 2004.](#)

Imagine  Canada

the narrative

A NEW CONVERSATION ABOUT CHARITIES AND NONPROFITS

IMAGINECANADA.CA/NARRATIVE

Imagine Canada, as the next stage of its National Engagement Strategy, is working with a broad cross section of organizations to create a New Narrative about the role and contributions of the charitable and nonprofit sector in Canada. In addition to contributing to the fabric of society we are a significant economic force and our organizations have played a pivotal role in building and defining our nation. The sector reflects Canadians' values and helps to implement shared visions. Yet we have not always been successful in sharing this story with Canadians. For more information please see the [Narrative Tool Kit](#).