The Civil Society War and the Popularization of the Fundraising Efficiency Ratio

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WIMPS
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Quick Overview

Fundraising – Competition – Regulation

Community Chest (known today as the United Way) confronts leading voluntary health agencies (VHAs)

Opposing views on fundraising

Mean and nasty tactics

Legal activity

Lasting legacy
Value Proposition of Federated Drives

Community Chests and Councils
Community Chest does fundraising
Councils independent, assess social needs

Chest cost effectively funds needs Council identifies

Councils cannot fund themselves
Councils disappear no later than 1960s
Community Chest Goals

Monopolize workplace giving
Dominate social service giving
Dominate health advocacy giving
Allocate giving for social services & health advocacy
Agencies Supported by Community Chest

Boy Scouts and Girl Scouts
YMCA and YWCA
Boys and Girls Clubs
Salvation Army
How big were the organizations?

Estimated donations received, 1924-1948 (millions)

<table>
<thead>
<tr>
<th>Organization</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Chest</td>
<td>$2,332.1</td>
<td>7.10%</td>
</tr>
<tr>
<td>American Red Cross</td>
<td>$1,317.4</td>
<td>4.01%</td>
</tr>
<tr>
<td>United Jewish Appeal</td>
<td>$ 506.3</td>
<td>1.54%</td>
</tr>
<tr>
<td>American Lung Association</td>
<td>$ 197.8</td>
<td>0.60%</td>
</tr>
<tr>
<td>March of Dimes</td>
<td>$  97.7</td>
<td>0.30%</td>
</tr>
</tbody>
</table>

What was the 7 Agencies Committee?

Largest Voluntary Health Agencies
National organizations with many affiliates
Need to inform and encourage affiliates to follow policy
Met ~bimonthly from 1948-1973+
Explicit purpose: stay out of federated fundraising
Counter adverse publicity

Members (current names):
American Cancer Society  March of Dimes
American Heart Association  Muscular Dystrophy Association
American Lung Association  National Multiple Sclerosis Society
Easter Seals
Why Maintain Independence?

Entering federated drives resulted in reduced

- Volunteers
- Fundraising income
- Public awareness of cause

Brand building

- Educate public about disease
- Associate their organization with that disease

Fundamentally Different Models for Raising Money

- National organization funded through local efforts
- Voluntary approach rather than workplace giving
- Control over budget
- Patient welfare & vagaries of disease incidence
- Donors have a right to know to whom they donate
VHAs were serious about independence

Returned money or checks that were accepted from federated drives by affiliates

Progressive discipline for noncompliant affiliates
  - Personnel changes
  - Financial penalties
  - Disaffiliation and replacement
Pressuring VHAs to Join

Polite invitation to local drive
Invitation pressure at national level
Shut out of local media
Shut out of Main St. Business
Shut out of manufacturers
“Too many drives”
Public threats to agencies

Come to the Dark Side ...
Too Many Drives?

Slogan used to promote federated drives
Raise concern of excessive charitable solicitation
  Potential donors forced to say “no”
  Underline burnout of campaign volunteers
Only appears in 1920s and late 1940s-early 1950s
Coincident with growth spurts for Community Chest
“I gave at the office”
Dirty Tricks

Specify disease support in drive, not naming agency
Misinform donors about agencies in drive
Fund direct competitors
Create competing organizations
United Health Fund for disease (1963)
Promote rules conducive to their business model
Denial of permits
Charity rating manipulations
<table>
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<tr>
<th>Organization</th>
<th>Agencies supported</th>
</tr>
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<tr>
<td>March of Dimes</td>
<td>Sister Elizabeth Kenny Foundation</td>
</tr>
<tr>
<td>Easter Seals</td>
<td>3 Agencies for the Crippled or Handicapped</td>
</tr>
<tr>
<td>American Cancer Society</td>
<td>2 Agencies for Cancer</td>
</tr>
</tbody>
</table>
National Guidance from United Way

1949  See that the community has a good solicitation ordinance as a protection against ‘charity rackets’ and that it is properly administered.

1962  Draw up and publicize a statement of approved and unapproved money-raising methods and a list of minimum standards for the conduct of benefits.

Continue efforts to solve the problem of multiple health appeals and health program inefficiency caused by national policies against participation in United fundraising.
Why regulate fundraising?

Political concern: inform public about wrongdoers
Donor protection: competition and deception
Protect charities: fraudulent fundraisers
Protect charitable beneficiaries: advocacy
Maintain public trust
Retain assets in state
Revenue generation: fees from permits
>>>Promote a specific business model

Local Rules for Fundraising

Delegation of home rule by states spurs regulation

Thousands of municipalities develop rules

Permitting, registration, and fees

Restriction on solicitation methods

Limit fundraising expense as % of projected funds raised

Financial reports required

United Way often named

Exempt from rules

Arbiter of permit disputes

Differential enforcement
Emerging Problems with Local Rules

Different permitting and reporting requirements between municipalities

Los Angeles County with 30 municipalities and 30 different fundraising permitting rules

Large organizations object to the level of detail required to file in many municipalities

Different municipal and agency boundaries

Agencies consolidating to regional or state level

Desire regulations to do the same
Increase in Legal Restrictions

Local Solicitation Ordinances

Thousands of Municipalities in Many States
Some States Fully Delegate
Rules Evolve with Court Decisions

State

12 States with Solicitation Laws in 1947
20 States with Solicitation Laws in 1957
31 States with Solicitation Laws in 1967
40 States with Solicitation Laws in 1977

Federal Proposals Never Get Traction
Legal Action

1937  Elkhorn, WI denies permit to March of Dimes

1950  Dayton, OH denies permit to Am. Cancer Soc.

1962  Park Ridge, IL: Am. Heart Assoc. sues, overturn 1928 law exempting United Way

1965  Elkhorn, WI denies permit to Am. Cancer Soc. and all other permit applicants

1967  Hamblen, TN denies all permits except United Way, sued by United Cerebral Palsy

1969  Fort Worth, TX denies permit to March of Dimes for excessive fundraising expenses
Content of State Laws

Typical requirements
- Registration/Permit
- Pay Fee or Post Bond
- Annual Report Submitted
- Written Contract with Professional Fund Raisers
- Authorization to Use Donor Identity in Promotions
- Records Available for Inspection

Professional Fundraisers Restricted More

VHAs banded together to draft model law
Calculating Fundraising Efficiency Ratio

\[
\frac{\text{cost of funds raised}}{\text{funds raised}}
\]

Permitting: prospective estimate
Rating: retrospective actual
Problems with Efficiency Ratio

Reflects average fundraising cost information

Overlooks critical cost variations:
- initiating new efforts
- marginal costs & unfunded programs
- fixed vs. variable cost projects
- different levels of competition
- different dependence on donations as % total income
- idiosyncratic events
- new donor acquisition vs. existing donor retention
- popular vs. unpopular causes
- young vs. mature charities
Problems promoted by Efficiency Ratio

Use low/unpaid fundraising personnel

Reduced risk-taking in solicitation & programming

Reduced acquisition of new donors

Leaving untapped money out of charity (Pallotta)

No focus on results, just internal management

Not effective at eliminating fraud

Misleading fundraising appeals & financial reporting


Good Things Emerging from this Dispute

Uniform accounting standards for charities

Spurred by Hamlin Commission report, published 1961

3rd time Rockefeller Foundation pursued health agencies

National Health Council issues in 1964

7 Agencies instrumental in the development

Adopted in 1963 by Multiple Sclerosis and Am. Lung

Other 7 Agencies Committee members follow by 1966

Restriction on use of celebrity names in fundraising

Protection of agency names and marks

Names, logos, taglines cannot be too close to other orgs
Other Uses of Financial Efficiency Ratios

Beyond ordinances and state laws
Embedded in rating agency calculations
Better Business Bureau closely connected to Community Chest
Complaints of BBB unfavorably manipulating reviews
Change reported financial figures of select VHAs
THE OVERHEAD MYTH

To the Donors of America:

We write to correct a misconception about what matters when deciding which charity to support.

The percent of charity expenses that go to administrative and fundraising costs—commonly referred to as "overhead"—is a poor measure of a charity's performance.

We ask you to pay attention to other factors of nonprofit performance: transparency, governance, leadership, and results. For years, each of our organizations has been working to increase the depth and breadth of the information we provide to donors in these areas so as to provide a much fuller picture of a charity's performance.

That is not to say that overhead has no role in ensuring charity accountability. At the extremes the overhead ratio can offer insight: it can be a valid data point for rooting out fraud and poor financial management. In most cases, however, focusing on overhead without considering other critical dimensions of a charity's financial and organizational performance does more damage than good.

In fact, many charities should spend more on overhead. Overhead costs include important investments charities make to improve their work: investments in training, planning, evaluation, and internal systems—as well as their efforts to raise money so they can operate their programs. These expenses allow a charity to sustain itself (the way a family has to pay the electric bill) or to improve itself (the way a family might invest in college tuition).

When we focus solely or predominantly on overhead, we can create what the Stanford Social Innovation Review has called "The Nonprofit Starvation Cycle." We starve charities of the freedom they need to best serve the people and communities they are trying to serve.

If you don't believe us—America's three leading sources of information about charities, each used by millions of donors every year—see the back of this letter for research from other experts including Indiana University, the Urban Institute, the Bridgespan Group, and others that proves the point.

So when you are making your charitable giving decisions, please consider the whole picture. The people and communities served by charities don't need low overhead, they need high performance.

Thank you,

Art Taylor
President & CEO, BBB Wise Giving Alliance
overheadmyth.give.org

Jacob Harold
President & CEO, GuideStar
overheadmyth.guidestar.org

Ken Berger
President & CEO, Charity Navigator
www.charitynavigator.org/
bestandworsttop10charities
Research shows that the overhead ratio is imprecise and inaccurate:

- 37%: Nearly 57 percent of nonprofit organizations with private contributions of $50,000 or more reported no fundraising or special event costs on their 2000 Internal Revenue Service (IRS) Form 990.

- 13%: Nearly 13 percent of operating public charities reported spending nothing for management and general expenses.

- 75-85%: Further surveys found that 75 to 85 percent of those organizations were incorrectly reporting the costs associated with grants.

But still, Americans over-emphasize the number and prioritize it over demonstrated success:

- 62%: 62% of all Americans believe the typical charity spends more than it should on overhead.

(Coming Evidence)

The "Overhead Myth" persists despite evidence that investments in overhead facilitate better nonprofit performance:

- 2,000: 2,000 nonprofits in the Compares and Nonprofit Services study of nearly 2,000 nonprofits in eight metropolitan areas revealed that accessing general operating support played a major role in reducing burnout and stress among executive directors.

(During to Lead: 2006: A National Study of Nonprofit Executive Leadership)

- 11.5% vs 10.8%: In 2011, the charities were 11.5% more efficient than the charities that had more overhead.

(Giving Evidence)

Underinvesting in overhead creates a range of negative outcomes which undermine quality and sustainability:

**Description of Underinvestment**

- Limited staff for administrative roles (e.g., finance, development, operations)
- Limited investment in staff training and development
- Inexperienced staff for administrative roles
- Poor IT infrastructure
- Poor fundraising management systems

**Consequences**

- Limited ability for organization to manage, monitor, or plan, etc.
- Increased turnover among staff, particularly those looking for ongoing professional development
- Limited ability to continually enhance skills of employees
- Difficulty building a self-sustaining business
- High turnover
- Poor quality
- System crashes, downtime
- Loss of data management, limited information sharing
- Inability to track donors and fundraising progress
- Limited ability to target fundraising
- Limited ability to track beneficiary outcomes, particularly across sites
- Limited ability to easily generate reports for grantmakers

Source: Mark A. Hager, Thomas Pollak, Kenneth Wing, and Patrick M. Rooney, "Getting It Right: Overhead Limits Nonprofit Effectiveness," Nonprofit Overhead Cost Project of the Center on Nonprofits and Philanthropy at the Urban Institute and the Center on Philanthropy at Indiana University, August 2006; case study interviews.

Primary Sources:
- The Nonprofit Starvation Cycle
  Stanford Social Innovation Review: Fall 2009
- Getting What We Pay For: Low Overhead Limits Nonprofit Effectiveness
  Center on Nonprofits and Philanthropy, Urban Institute, Center on Philanthropy, Indiana University
- What We Know About Overhead Costs in the Nonprofit Sector
  Center on Nonprofits and Philanthropy, Urban Institute, Center on Philanthropy, Indiana University
- Nonprofit Overhead Costs: Breaking the Vicious Cycle of Misleading Reporting, Unrealistic Expectations, and Pressure to Conform
  The Bridgepoint Group, April 2008
Logical extreme of financial manipulation

Fundraising is program, so $0 fundraising expense
  Federated fundraisers
  Community Foundations
  Commercially affiliated donor advised funds
  Health advocacy organizations
  Scholarship providers
  Gifts-in-kind procurement specialists

Separates resource procurement and operations
Leaves operational organizations vulnerable
Critical management decisions for charities

Cost of capital
Regulatory compliance creating usable information
Multipurpose efforts: public education & fundraising
Continually adding new donors