“A vicious cycle is leaving nonprofits so hungry for decent infrastructure that they can barely function as organizations—let alone serve their beneficiaries. The cycle starts with funders’ unrealistic expectations about how much running a nonprofit costs, and results in nonprofits’ misrepresenting their costs while skimping on vital systems—acts that feed funders’ skewed beliefs.”

The article opens with the statement: “Organizations that build robust infrastructure—which includes sturdy information technology systems, financial systems, skills training, fundraising processes, and other essential overhead—are more likely to succeed than those that do not. This is not news, and nonprofits are no exception to the rule.”

“...underfunding overhead can have disastrous effects, finds the Nonprofit Overhead Cost Study, a five year research project conducted by the Urban Institute’s National Center for Charitable Statistics and the Center on Philanthropy at Indiana University. The researchers examined more than 220,000 IRS Form 990s and conducted 1,500 in-depth surveys of organizations with revenues of more than $100,000. Among their many dismaying findings: nonfunctioning computers, staff members who lacked the training needed for their positions, and, in one instance, furniture so old and beaten down that the movers refused to move it. The effects of such limited overhead investment are felt far beyond the office: nonfunctioning computers cannot track program outcomes and show what is working and what is not; poorly trained staff cannot deliver quality services to beneficiaries.”

“Our research reveals that a vicious cycle fuels the persistent underfunding of overhead. The first step in the cycle is funders’ unrealistic expectations about how much it costs to run a nonprofit. At the second step, nonprofits feel pressure to conform to funders’ unrealistic expectations. At the third step, nonprofits respond to this pressure in two ways: They spend too little on overhead, and they underreport their expenditures on tax forms and in fundraising materials. This underspending and underreporting in turn perpetuates funders’ unrealistic
expectations. Over time, funders expect grantees to do more and more with less and less—a cycle that slowly starves nonprofits.”

“Rather than being the reason to reduce overhead spending, the recession is an excellent opportunity to redress decades-long underinvestment in nonprofit infrastructure. “There is real potential for change if all of the major stakeholders—government, private funders, and the nonprofits themselves—take steps to acknowledge that capacity building is critical to the health of an organization,” says [Jamie] McAuliffe [a portfolio manager at the New York-based Edna McConnell Clark Foundation]. And although the forces that fuel the nonprofit starvation cycle are strong, the opportunity to achieve more for beneficiaries in the long term should compel funders and grantees alike to stop the cycle.”

**WHAT YOU CAN DO IN YOUR ORGANIZATION**

“The burden of breaking the cycle of nonprofit starvation does not rest solely with funders. Nonprofit leaders also play a role. As a baseline task, they should commit to understanding their real overhead costs and their real infrastructure needs... Nonprofits must then speak truth to power, sharing their real numbers with their boards and then engaging their boards’ support in communicating with funders. Case studies of organizations that have successfully invested in their own infrastructure have repeatedly noted the need for a shared agenda between the leadership team and the board.”

**WHAT WE CAN DO TOGETHER**

“Although several factors drive the cycle of nonprofit starvation, our research suggests that taking action at the first stage—funders’ unrealistic expectations—could be the best way to slow or even stop the cycle. Changing funders’ expectations, however, will require a coordinated, sector-wide effort. At a time when people need nonprofit services more than ever and when government is increasingly turning to nonprofits to solve social problems, this effort is necessary to keep nonprofits healthy and functioning.”