

Americans' Perceptions of the Financial Efficiency of Non-profit Organizations

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Synopsis

How much do your donors and potential donors think you spend on administration and fundraising? How much do they think you *should* be spending? A new research study evaluated these questions among a representative sample of American consumers. The study was conducted by Ellison Research (Phoenix, AZ), an independent marketing research company that specializes in work within the non-profit sector.

This report sets forth some of what was learned in the study, as well as what the implications are for non-profit organizations. Sections will include:

- The Reason for the Research
- The Study Basics
- Key Findings from the Study
- Summary Table
- Implications for Non-profit Organizations
- Qualifications for the Study

The Reason for the Research

During over 20 years of managing research for non-profit organizations, one thing has become abundantly clear: most consumers have very little awareness of how non-profits actually work. They frequently have only vague, hazy concepts about the business side of philanthropy, and those concepts are often wildly off base.

While donors (and potential donors) may not need to know your organization's exact business plan or organizational structure, what they *think* they know can have a substantial impact on how they view non-profits in general – as well as how they view your specific organization.

In hundreds of focus groups conducted among donors to a wide variety of organizations, the following types of misperceptions have arisen much more than once:

- “If they just cut down on the amount of mail they send me, they’d have a lot more money for their cause.”
- “I don’t want to support an organization with paid employees – a *good* charity would be doing work so important that everyone is a volunteer.”
- “Why do they need to raise money to put that fundraising program on TV? If the cause is really that important, I’m sure NBC would give them a half-hour during prime time to show their program.”
- “As soon as I give money to one organization, they immediately sell my name to forty more, and I’m bombarded with solicitations.”
- “They’re a big organization, so they don’t really need my money.”
- “I gave them forty bucks and the next time they asked for fifty. They got greedy and weren’t satisfied with what they got, so I stopped giving.”
- “Charities should not spend money on (insert one: fundraising, salaries, research, marketing, travel, direct mail, etc.) – that’s money that should all be going toward the cause.”
- “I want 100% of the money I give to go to the cause, with nothing going towards salaries or buildings or fundraising or anything else.”
- “Only about 10% of the money I give actually goes toward the work that’s being done – the rest gets spent on administration – so why give?”

These last two observations illustrate an area donors are often particularly confused about – *just how much of my money goes to the cause I’m actually trying to support?*

Ellison Research decided to look at this issue through a study of American consumers’ perceptions.

The Study Basics

This study was conducted among 1,007 American adults age 18 or over. The sample was balanced by age, gender, geography, household income, and race/ethnicity, with the resulting data re-weighted by these factors to correct for minor fluctuations in response rate among different demographic categories. The sample was from a nationally representative online research panel.

The study included a wide range of topics, such as quality of education, political issues, religious involvement, and brand loyalty in purchase decisions. The entire study was designed and funded independently by Ellison Research, with no involvement or sponsorship from external sources.

Two key questions were asked that form the basis of this report:

1. Think about how non-profit organizations and charities operate. Almost all organizations have some overhead costs, meaning some percentage of every donation you give goes toward expenses such as administration and fundraising. To the best of your knowledge, for the typical charitable organization, what percentage of donations goes toward these overhead expenses? (If you're not sure, make your best guess.)
2. For the typical charitable organization, what do you think would be a *reasonable* percentage of donations that would go toward administration, fundraising, and overhead costs? (Again, not what would be *ideal*, but what you feel would be *reasonable*.)

In both cases, respondents were allowed to respond with any percentage they wished, from 0% to 100%. Categories were not used in the questionnaire, although they will be in the analysis.

Key Findings from the Study

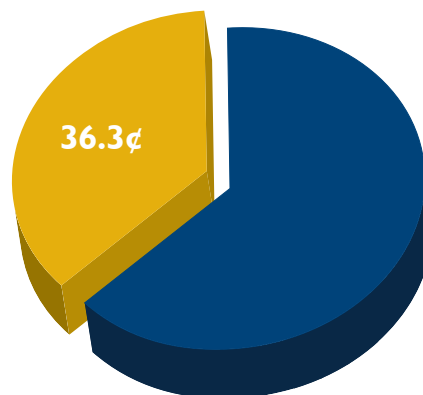
There were a number of findings from this study with significant implications for non-profit organizations of all types.

Overall Perceptions

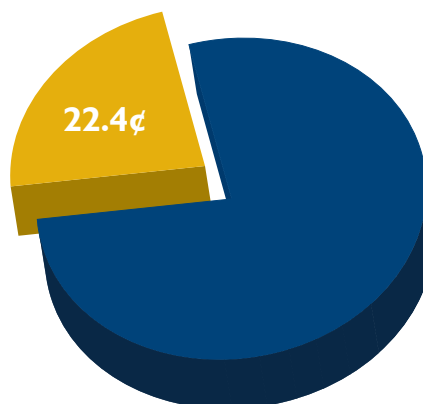
In short, the average American believes 36.3 cents of every dollar given to non-profits goes to overhead costs – fundraising, administration, etc.

At the same time, they believe it is reasonable for organizations to use an average of 22.4 cents out of every dollar for overhead. However, these simple

Perceptions of What Overhead Is



Perceptions of What Overhead Should Be



numbers do not come close to telling the entire story.

Diversity of Thought

The numbers quoted above are just averages. Taken too simplistically, they can make it sound as if every American believes around 36 cents on the dollar currently go to overhead expenses, while about 22 cents should.

The data shows a very wide diversity of thought on these questions, however. For instance, look at the question about what proportion of donations actually goes for overhead costs.

Although respondents were allowed to enter any specific number they felt was appropriate, for convenience, we've grouped the numbers into categories of ten percentage points. Observe how much diversity there is in what percentage Americans think is spent on overhead:

- + 6% believe the typical charity spends under 10 cents of every dollar on overhead
- + 17% believe it is 10 – 19 cents
- + 23% believe it is 20 – 29 cents
- + 12% believe it is 30 – 39 cents
- + 8% believe it is 40 – 49 cents
- + 13% believe it is 50 – 59 cents
- + 7% believe it is 60 – 69 cents
- + 8% believe it is 70 – 79 cents
- + 7% believe 80 cents or more of all donations are spent on overhead

The findings here show a couple of different things. One is that there is a very wide diversity of perceptions on this issue. Even when grouped into ten-point categories, no single category accounts for even one out of every four Americans.

The other thing is that this diversity extends to the extreme ends of the spectrum, and not just a few close-together categories. Consider that 23% of all Americans have a highly positive view of non-profits' financial

efficiency, believing that the typical non-profit spends less than 20 cents on the dollar for overhead. But at the other end, just as many Americans (22%) have a highly *negative* view, believing that the typical organization spends *60 cents or more* out of every dollar on overhead expenses.

The diversity of perception is not just that some people think non-profits are spending 25 cents of every dollar on expenses, while others think it's 30 cents. In fact, about one-quarter of Americans see non-profits as highly efficient, while about the same proportion see them as wildly inefficient.

Negative Perceptions about Efficiency

It's important to note that these questions did not ask people whether any abuses exist among charities, or whether some charities spend more than they should. These questions asked people about the *typical* non-profit organization.

The average perception that 36 cents on the dollar goes to overhead expenses probably isn't too bad, taken at face value. But as the bullet points above demonstrate, an average is simply made up of many different individual responses. Consider the fact that over one-third of all Americans (35%) believe the typical non-profit organization spends *at least half* of all donations on overhead. Viewed at another level, over half of all Americans (55%) believe the typical non-profit spends 30 cents *or more* out of every donor dollar on overhead expenses. Many Americans do not have a very charitable view of how efficiently non-profits use their donations.

How Different Types of People See Non-profit Efficiency

One value of having over 1,000 respondents in the study is that we can look at how different kinds of people see things.

Many non-profits do little to cultivate younger donors, because of perceptions that young people often don't have disposable income to donate. Ironically, younger people have a more positive view of how efficient non-profits are with their donations. Fifty-three percent of Americans under age 35 believe the typical organization spends under 30 cents on the dollar for overhead, compared to just 45% of older Americans.

There are also differences in perceptions according to race/ethnicity. African-Americans have the most positive view of non-profits' financial efficiency, while Latinos have the least positive view.

The average Caucasian believes non-profits typically spend 37 cents on the dollar for overhead, while among African-Americans it is 27 cents, and among Latinos it is 40 cents. Similarly, 45% of Caucasians say under 30 cents on the dollar typically gets spent on overhead, compared to 58% among African-Americans, and 42% among Latinos.

Perceptions do not vary substantially by region of the country, but they do differ by the type of community in which people live. Urban residents are the most optimistic about efficiency, as 55% say non-profits typically spend less than 30 cents of each dollar on overhead, compared to 44% among residents of suburbia, and 45% among those who live in a small town or rural area.

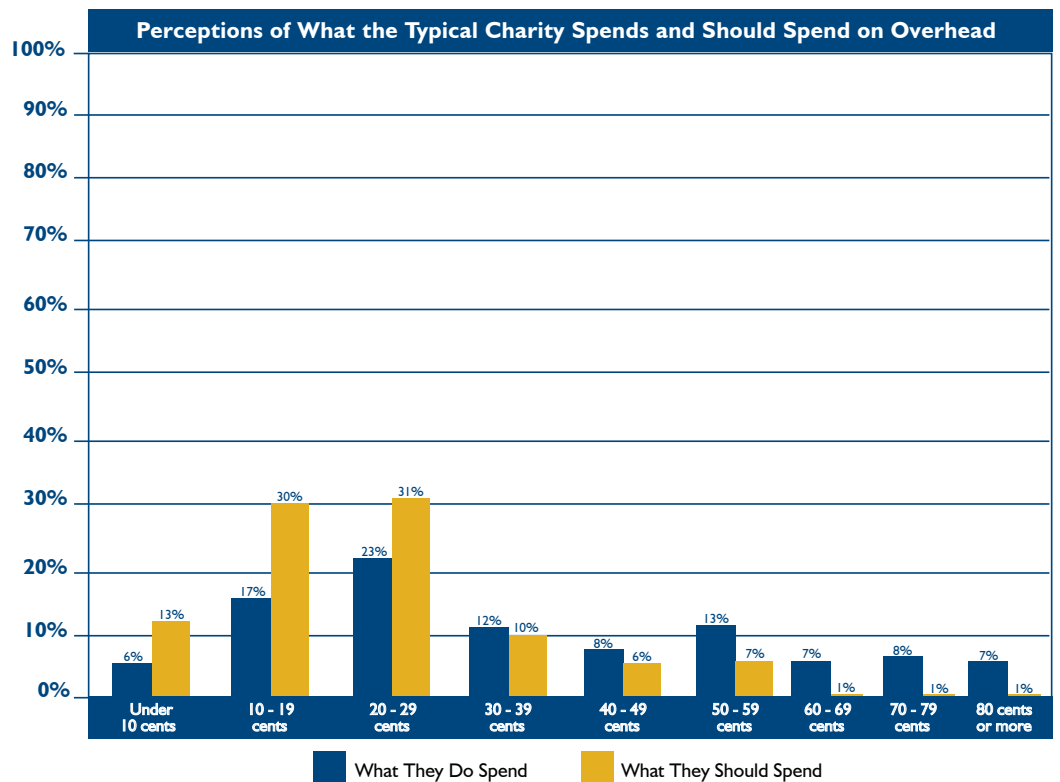
What Is versus What Should Be

For the average American, there is a 14-cent gap on every dollar between

what they believe non-profits are spending on overhead, and what they believe non-profits should be spending. In essence, the typical American believes non-profits should be 40% more efficient with their money than they actually feel organizations are.

But here again, the fact that the average American feels a reasonable target for non-profits is to spend 22 cents of every dollar of their donations on overhead does not mean everyone feels that way – far from it:

- 13% believe the typical charity should spend under 10 cents of every dollar on overhead
- 30% believe it should be 10 – 19 cents
- 31% believe it should be 20 – 29 cents
- 10% believe it should be 30 – 39 cents
- 6% believe it should be 40 – 49 cents
- 7% believe it should be 50 – 59 cents
- 1% believe it should be 60 – 69 cents
- 1% believe it should be 70 – 79 cents



- 1% believe it is reasonable to spend 80 cents or more of all donations on overhead

There is much less diversity of thought on what organizations should spend than on what they do spend, but still, some diversity is present. Realize that 13% believe non-profits should spend less than 10 cents of every dollar on overhead, 43% believe it should be less than 20 cents on the dollar, and 74% believe it should be less than 30 cents on the dollar. That leaves about one out of every four Americans with relatively low goals for non-profits, believing it's acceptable to spend 30 cents or more of every donor dollar on overhead.

More Differences

Just as there are differences in what various types of people feel organizations do spend, there are also differences in what people think they should spend. Younger Americans – who are less pessimistic than others about non-profit expenses – at the same time have lower expectations for what should be spent on overhead. Sixty-seven percent of people under age 35 say charities should spend less than 30 cents on the dollar on expenses, compared to 71% of those 35 to 54, and 82% of Americans 55 and older.

There is no real difference in expectations between African-Americans and Caucasians, but Latinos have lower expectations than do either of those groups. Seventy-six percent of Caucasians and African-Americans expect expenses to be below 30 cents on the dollar, versus 65% of Latinos.

The summary table compares various population groups on what they believe non-profits do spend out of every dollar on overhead, versus what they should spend (expressed in averages).

Comparison to Standards

One important element of survey research is

Summary Table

Population Group	Average Amount NPOs Spend	Average Amount NPOs Should Spend	Gap
All Americans	36.3 cents	22.4 cents	13.9 cents
Men	35.9	21.3	14.6
Women	36.6	23.4	13.2
Age 18 – 34	32.5	25.7	6.8
Age 35 – 54	37.2	22.7	14.5
Age 55+	37.4	20.0	17.4
Household income <\$40,000	37.7	23.7	14.0
Household income \$40,000 to \$79,999	35.6	22.2	13.4
Household income \$80,000 or higher	35.3	20.7	14.6
Caucasian	37.5	21.9	15.6
African-American	27.1	20.5	6.6
Latino	40.2	25.1	15.1
All non-Caucasian	33.2	23.5	9.7
Regularly attend religious services	35.5	22.9	12.6
Do not regularly attend religious services	37.1	21.8	15.3
Attend Protestant worship	34.3	23.1	11.2
Attend Catholic worship	38.6	22.7	15.9
Attend any other worship	34.5	20.4	14.1
Evangelical Christian	34.6	22.5	12.1
Not evangelical Christian	36.5	22.3	14.2
Northeast region	36.5	24.8	11.7
Midwest region	36.4	21.8	14.6
South region	35.6	21.5	14.1
West region	37.2	22.7	14.5
Democrat	35.4	23.6	11.8
Republican	38.1	22.4	15.7
Independent	34.5	20.9	13.6
Small town/rural resident	36.1	20.8	15.3
Suburban resident	37.6	24.2	13.4
Urban resident	33.9	21.6	12.3

context. For instance, it's fine to learn that 60% of your donors are very satisfied with your financial efficiency, but what's the context? If 45% are satisfied with the industry as a whole, then your organization compares very favorably. But if 75% are satisfied with the indus-

try as a whole, you fall quite short when your 60% satisfaction figure is placed in context.

Of course, one of the problems with measuring things such as “fundraising and administrative expenses” in the real world is that accounting practices and definitions differ from one organization to the next. One organization may include all direct mail sent out under “fundraising expenses,” while another may reason that part of the purpose of these communications is to educate donors and potential donors, so part or all of the expense of direct mail is included under “program expenses.”

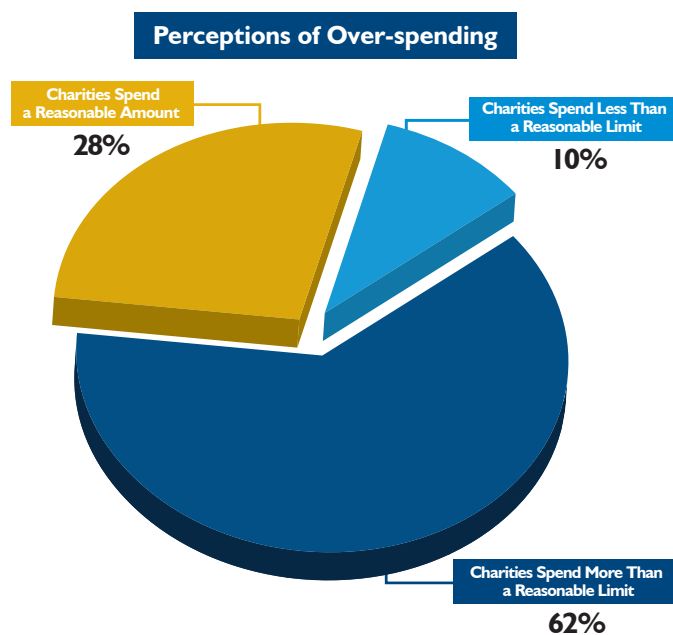
Three major watchdog organizations also provide different views of what is acceptable. The American Institute of Philanthropy’s view is that “60% or greater is reasonable for most charities” to spend on actual charitable programs, while “(t)he remaining percentage is spent on fundraising and general administration.” The Better Business Bureau states that in order to meet their Wise Giving Alliance Standards, an organization must “spend at least 65% of its total expenses on program activities.” Charity Navigator claims “The majority of the charities rated by Charity Navigator spend less than 10% of their budget on fundraising costs, less than 15% on administrative costs, and at least 75% on the programs and services they exist to provide.” (Quoted from the web site of each organization.)

Organizations may or may not agree with the views of any or all of these sources, but it’s illuminating to note that 37% of all Americans believe the typical charity does not meet the AIP’s standards for reasonable expenses, 42% say charities generally don’t meet the BBB’s standards, and 54% believe the typical charity does not meet Charity Navigator’s standards.

Even more revealing is the proportion of all Americans who believe these standards are too low – in other words, that any organization spending 40 cents of

every dollar, or 35 cents, or 25 cents, on overhead and administration is simply not efficient enough.

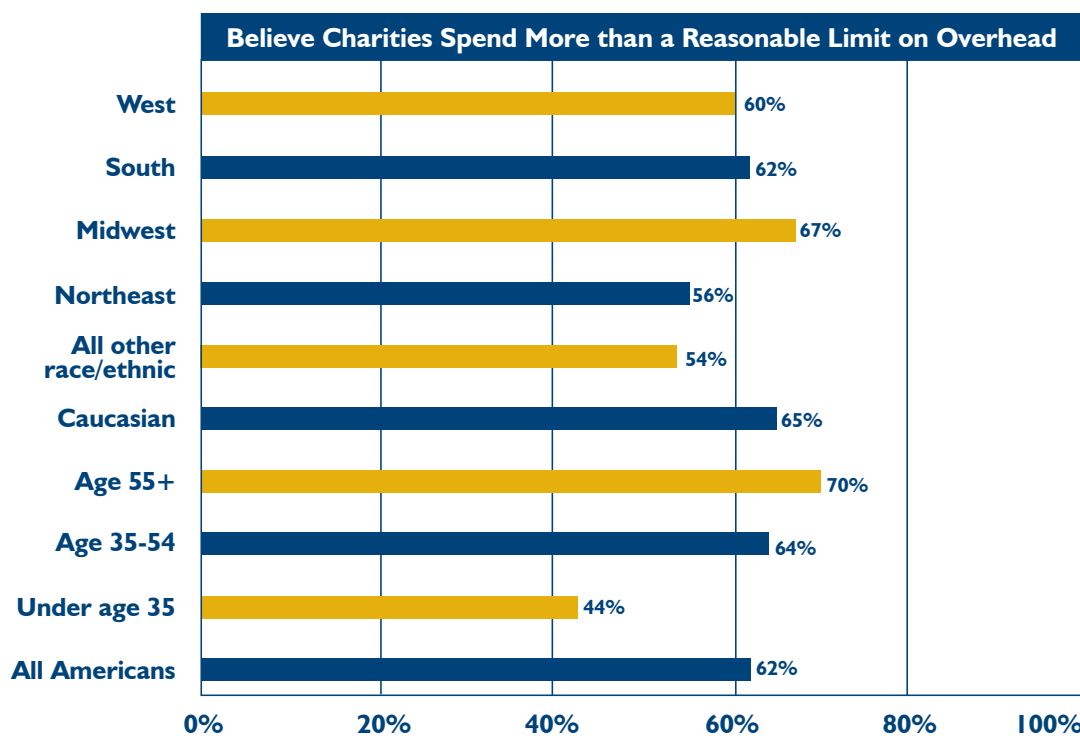
Another way of providing context is simply to compare what Americans believe is happening with what those same people believe should be happening. We noted earlier that the average perception is that charities spend about 36 cents out of every dollar on overhead, while the expectation is that it’s reasonable to spend about 22 cents. Also note that the study shows 62% of all Americans believe the typical charity spends more than it should on overhead. Whether they said the typical charity spends 35 cents, but 30 cents is reasonable, or whether they said the typical organization



spends 60 cents but only 10 cents is reasonable, these were people who said spending is typically higher than what they consider to be reasonable.

Twenty-eight percent answered with the same number for what they thought is reasonable and what they thought charities are spending on overhead, essentially saying that the typical charity is spending a reasonable amount (whatever that amount may be).

Just 10% believe the typical charity spends a smaller amount on overhead than they feel is the limit, in effect



percent believe charities typically spend more on overhead than what is reasonable.

If people don't know anything specific about your organization, they're likely to lump you in with all the other ones they perceive to be financially inefficient. Already believing there is widespread financial inefficiency, they are also much more susceptible to even a whiff of financial scandal or rumored lack of accountability (which hurts indi-

saying they're even more efficient than a reasonable standard would demand.

This, too, varied among different types of people. The least likely to say charities are typically spending more than is reasonable on overhead included people under 35 years old (44%) and African-Americans (56%). The most jaded included people 55 and older (70%), Roman Catholics (68%), and residents of the Midwestern states (67%).

Implications for Non-profit Organizations

These research findings have significant implications for non-profits of all sizes and types.

For one thing, consider what this research says about public perception of the industry as a whole. The average American believes the typical non-profit should be 40% more efficient with its money than it actually is. Over a third believe that if they give, at least half of their money will go towards overhead rather than towards the cause they want to support. Sixty-two

percent believe charities typically spend more on overhead than what is reasonable. Is it any wonder that in this environment, prospecting and retention are both such a challenge?

For another thing, consider how your organization compares to consumers' perceptions and expectations. If your organization spends 19 cents of every dollar on fundraising, administration, and other expenses, 77% of all Americans would consider you better than average. But even so, 43% would still say you're falling short of a reasonable goal. If you spend 29 cents of every dollar on overhead expenses, 54% of all Americans would say you're doing better than the typical organization, but 74% would still say you're spending more than is prudent.

But every non-profit has a donor base that is unique. Yours may be mostly women, or be politically conservative, or have a very advanced average age, or be largely evangelical, or come from urban areas, or differ in a number of other ways. More important than what the average American thinks, do you know what *your donors* expect of you, and what they think you're doing with their money?

That being said, most people do not judge non-profits by numbers alone. Numbers such as the percentage that goes toward overhead expenses are part of the whole picture that makes up the perceived credibility of the organization. Our research has shown that this credibility is also influenced by other factors such as:

- whether donors know about and trust key leaders of the organization
- whether the organization appears to be transparent about its work (such as a child sponsorship organization that invites donors to travel to places such as Guatemala or Thailand and actually meet the child they have been sponsoring)
- whether people feel they can see for themselves the impact the organization is having
- whether people know someone who works for or volunteers for the organization
- whether independent sources (e.g. the news media, accountability organizations, clergy, or even a friend) tend to praise or criticize the organization
- whether the organization is connected with a source they trust, such as their religious denomination

In speaking with leaders from scores of different non-profit organizations, it's fascinating to note the diversity – from organizations that have their finger constantly on the pulse of their donors, all the way to those that can't even tell us their donors' average age, or what proportion are men. Somewhere in between are those which can quote demographics and giving histories of their donor base, but have little understanding of what donors are thinking, what they're feeling, or how they perceive the organizational brand. It's imperative that organizations understand to the best

of their ability how they are perceived by donors and potential donors. This is especially true given how many factors can play a part in perceived credibility (as listed above).

One mistake we see constantly in the research we do is organizations that get a gift or two from someone and begin to think of that person as “one of ours” – as if the donor is highly knowledgeable about the organization and its cause, and committed to the work. When we talk with their donors, we often find out that many of them know relatively little about the organization, they lack any real commitment or loyalty, and the organization is simply one of many the donor will consider supporting when it is time to make their next gift. How the donor sees the relationship and how the organization sees the relationship are often two completely different things.

Something else to consider in this research is the tremendous diversity of thought about what non-profits are spending on overhead. In our work over the years, we have consistent qualitative and quantitative evidence that this is not the only subject on which donors aren't particularly knowledgeable. As noted in the introduction, they usually have little idea about the business side of non-profits. What else do they not understand about you, and how does that influence their thoughts and feelings – and, particularly, their desire to give?

It's critical to know what people are thinking and feeling. That's why Ellison Research has been working with non-profit organizations for over a decade, helping them understand just that. It's also why we have forwarded this report to you – in hopes it will spur some thought for you and be of use in your organization.

Qualifications for the Study

As noted in the first section of this report, this study came about because of more than a decade of experi-

ence serving non-profits by Ellison Research, and over two decades by the company's president, Ron Sellers.

Since 1996, Ellison Research has been conducting both qualitative and quantitative research among donors, potential donors, and lapsed donors, working with a wide variety of non-profit organizations and the consultants who serve them. Ellison Research specializes in working with non-profit organizations.

We have also conducted numerous studies at our own expense to understand the American consumer more thoroughly, often on topics that impact the non-profit world. Results from these studies have been covered in the international media, such as *The Financial Times of London*, Associated Press, *NonProfit Times*, USA Radio Network, *Los Angeles Times*, *Dallas Morning News*, *Clergy Journal*, Salem Radio Network, *Detroit News*, and many other outlets in the USA, China, Canada, England, New Zealand, Norway, Korea, Sweden, Hungary, Australia, and other parts of the world.

We feel the combination of our focus on non-profits with our work serving some of the leading for-profit brands in the world makes Ellison Research uniquely qualified to understand consumer and donor behavior and perceptions, and to present this research report to you.

More information on the company is available at www.ellisonresearch.com.

Non-profits we have served include:

- ✦ Goodwill Industries
- ✦ World Vision
- ✦ Alzheimer's Association
- ✦ Compassion International
- ✦ World Concern
- ✦ Operation Smile
- ✦ Focus on the Family
- ✦ St. Jude Children's Research Hospital
- ✦ The Inspiration Networks

On the for-profit side, companies we have served include:

- ✦ General Motors
- ✦ Coca-Cola
- ✦ BMW
- ✦ Herman Miller
- ✦ Mitsubishi
- ✦ M&M/Mars
- ✦ Macy's
- ✦ Samsung Electronics