

"Overhead tasks don't disappear just because you don't spend money on them."

By [Steve Thorngate](#)

December 8, 2014

ProPublica has been doing a series of [reports about the Red Cross's misleading rhetoric about how it uses donations](#):

The American Red Cross regularly touts how responsible it is with donors' money. "We're very proud of the fact that 91 cents of every dollar that's donated goes to our services," Red Cross CEO Gail McGovern [said](#) in a speech in Baltimore last year. "That's world class, obviously."

McGovern has often [repeated](#) that figure, which has also appeared on the charity's website. "I'm really proud" that overhead expenses are so low, she [told](#) a Cleveland audience in June.

The problem with that number: It isn't true.

Well, that's one problem. The other one is that true or not, the number isn't half as important as people seem to think it is.

It's certainly a worthy investigation *ProPublica* is doing. If the Red Cross is going to tout the 91 cents figure every chance it gets, it's fair to try to keep them honest about it. But the fact that charities feel the need to brag about how little of their money goes to overhead vs. program is a problem much bigger than the Red Cross. [Here's Michael Hobbes](#):

Donors love overhead. It's one number that allows you to compare the soup kitchen with the anti-corruption think tank. It smells all rigorous and objective, but it doesn't require any actual work.... We shouldn't pick just

one number to stand in for efficiency. We're always arguing that, if rich countries want to solve the problems of poor ones, they're going to have to spend time getting to know them. It's time we apply the same logic to the agencies we dispatch to do the job.

Hobbes describes his own experience in the nonprofit world:

The last NGO I worked for had 150 employees and a budget of more than \$25 million. Employees were divided into "program staff" (the people researching, coordinating, and implementing our mission) and "overhead staff" (the fund-raising, human resources, and accounting departments helping them do it). Like most NGOs, we bragged to our donors that we had low overhead, that their dollars and euros and kroner and francs went to "the cause" and not to our rent or our heating bills. And this was, at least on the Excel sheets, true. Most of our money went to researcher and project manager salaries. The fund-raising, H.R., and accounting departments could have each fit comfortably in a minivan.

The problem is, those overhead tasks don't disappear just because you don't spend money on them. Someone has to monitor the accounts, find new donors, calculate taxes, organize the holiday party. Centralizing these tasks in dedicated departments, hiring specialists, getting good at them, that would have looked like bureaucracy. So instead, we spun them out to the entire staff: We assigned researchers and project managers—anthropology majors mostly, some law school dropouts—to do our H.R., accounting, fund-raising, and project evaluations.

The outcome was as chaotic as it sounds.

As Hobbes maintains, overhead numbers matter; just ask the people who give to charities only to find out that what they're supporting is mostly just the wages of the telemarketers who talked them into it. But they're far from a one-size-fits-all measure of a charity's performance—as tempting as it is to use them that way. Something to keep in mind as the causes we support hit us up for end-of-year giving.