



NEW REPORT: Overhead costs are a poor guide for charitable giving

A new report to be published on [IZA World of Labor](#) today finds overhead cost ratios are a poor metric for judging the effectiveness of charities and often leads charities to underinvest in skilled labor and necessary infrastructure

The overhead cost ratio is the most commonly used metric to rank charities. That is, the amount the charity spends on administrative and fundraising expenses as a proportion of their total spending. Policymakers have, at times, even attempted to regulate charities' overhead costs directly by setting limits on these expenditures.

A new report by economist Jonathan Meer of Texas A&M University, USA provides evidence that donors' focus on overhead costs can lead to counterproductive outcomes for charities, such as underinvestment in staff and administrative support, which hamper their effectiveness. Meer cites research suggesting that donors tend to be quite sensitive to administrative costs, even when these costs have no relationship to the quality of the charity. Most strikingly, a recent field experiment showed the degree to which donors focus on overhead costs, finding that the most effective use of a large donation is to cover administrative costs and to promote the charity on this basis (i.e. if charities advertise the fact that large individual donations are used to pay administrative costs they will attract more funding).

Meer goes on to show that overhead costs are not only an unreliable metric of a charity's effectiveness but donors' focus on overhead costs is often counterproductive. An inability to pay competitive wages in the marketplace due to a need to limit administrative costs leaves charities at a disadvantage in the labor market. Furthermore, a number of studies show that charities often underinvest in necessary infrastructure which in turn leads to lower effectiveness. For example, even large charities do little to no tracking of how funds are being spent, let alone how donors are being solicited, and the non-program staff have little experience in administration, accounting, or finance.

Meer concludes: "this focus [on overhead] hurts non-profit organizations' effectiveness by limiting their ability to compete in the labor market and by altering their administrative structure in a counterproductive way. Alternative measures based on the true impact of a charity's activities would be far more useful."

Media Contact:

Please contact Anna von Hahn for more information or for author interviews:
anna.vonhahn@bloomsbury.com or +44 7852 882 770

Notes for editors:

IZA World of Labor (<http://wol.iza.org>) is a global, freely available online resource that provides policy makers, academics, journalists, and researchers, with clear, concise and evidence-based knowledge on labor economics issues worldwide.

The site offers relevant and succinct information on topics including diversity, migration, minimum wage, youth unemployment, employment protection, development, education, gender balance, labor mobility and flexibility among others.

Established in 1998, the Institute of Labor Economics (www.iza.org) is an independent economic research institute focused on the analysis of global labour markets. Based in Bonn, it operates an international network of about 1,300 economists and researchers spanning more than 45 countries.