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Nonprofit & Business Partners Council

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The Nonprofit Starvation Cycle

Almost a year ago, our council sponsored its first major event. We invited Dan Pallotta, a well-known, if controversial, spokesperson on nonprofit funding. Hundreds of people attended, and heard Dan's message that we should consider more than overhead when evaluating a nonprofit. Instead we should consider the scope of their aspirations, along with the effectiveness of their outcomes. This sounds fine – why does this idea remain so controversial?

The answer lies in the fact that many people still consider it a bad thing when nonprofits spend resources on infrastructure (also known as “indirect costs” or “overhead”). Chief among these are some of the sector's most important stakeholders: their funders. One industry leader - The Bridgespan Group - published an article that describes this as “the starvation cycle”. The cycle begins with unrealistic expectations about how much it costs to actually run a nonprofit. As a result, nonprofits work hard to conform to these expectations by spending too little on overhead and in some cases even under-reporting actual expenditures on tax forms and in fundraising materials. This underspending and underreporting validates funders' mistaken expectations so the cycle continues to perpetuate itself. As time goes by, nonprofits are constantly expected to do more and more with less and less. If it continues, the cycle can slowly starve nonprofits, sometimes out of existence. (The full text of this article can be found at www.ssireview.org/articles/entry/the_nonprofit_starvation_cycle)

Bridgespan believes that it is funders, not nonprofits, who must lead the way out of this cycle. Fortunately many are starting to understand this, including those here in the Lehigh Valley. Our council intends to continue the dialogue that is necessary to keep this awareness growing. Stay tuned!