PHILANTHROPIC TRENDS QUARTERLY 2009: Issue 3

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The definitive [4] times per year source of philanthropic trends analysis in Canada

"What percentage of my donation will go to the cause?"

This is probably one of the most common questions faced by charitable organizations engaged in fundraising. Coming from a place of good intentions, it reflects that donors want their charitable contributions to be used in the best way possible to achieve their philanthropic objectives – whether that be to support higher education, improve the life of someone in need or find a cure for cancer. And for better or worse, this question has become synonymous with how a "good" charity is defined.

And yet, those of us in the fundraising milieu know that this ratio is not always the best indicator of a charity's performance or worthiness for investment. We also understand that the ratio itself, while seemingly simplistic, is actually very complex. And because of that complexity, it defies simple and straightforward guidelines, not to mention direct comparisons between charities.

Unfortunately, there is no easy answer to the question of the cost of fundraising. Whether as board members, staff, volunteers or donors, one needs to be careful about oversimplifying the issue. Determining the appropriate mix and blending of fundraising programs and costs for an organization requires insight, analysis and good judgment. It is important to thoughtfully assess what investment is needed in fundraising staff and programs, and to measure regularly how that investment impacts the achievement of the organization's overall mission and goals or those of the institution you support.

In developing this edition of Philanthropic Trends Quarterly, we reviewed the recently released CRA Guidance on Fundraising, as well as the latest literature and data related to the cost of fundraising. We examined the Muttart Foundation's report *Talking About Charities 2008: Canadians' Opinions on Charities and Issues Affecting Charities*, as well as an American study developed in part by The Centre on Philanthropy at Indiana University entitled the *Nonprofit Overhead Cost Project.* We also spoke to sector leaders as well as industry observers to gather their opinions.

While our research reveals some evolution in thinking, we discovered that one thing remains unchanged: the vast majority of the sector welcomes discussion related to the cost of fundraising. All we spoke with are supportive of guidelines that will protect donors from unethical organizations and are happy to work towards such guidelines through best practices. And, there is an ongoing willingness to be transparent with all stakeholders regarding the management of their organizations.

We hope that you find this edition helpful and welcome your comments and feedback. Happy reading and have a great fall!

Marnie Spears
President and CEO

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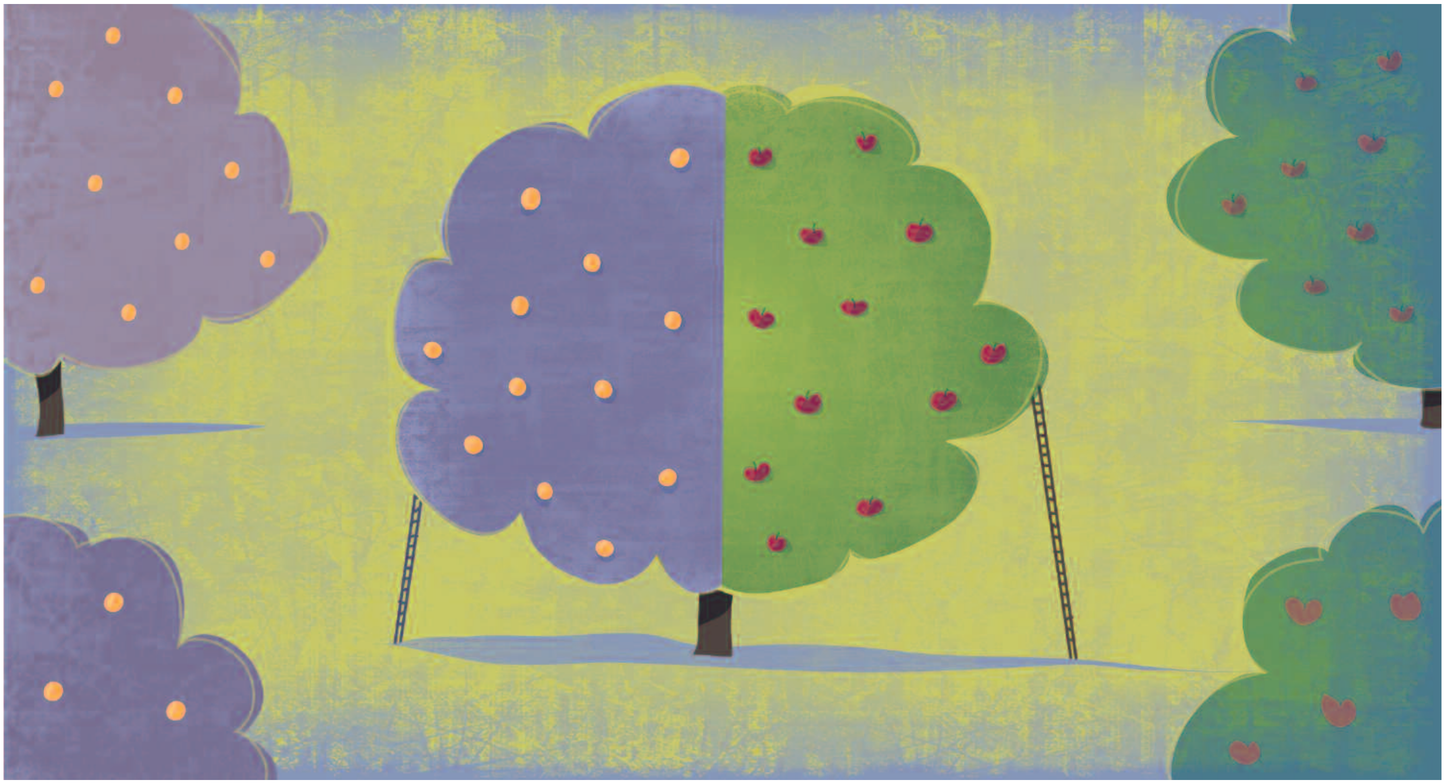
Less is more? Not always....



When considering fundraising cost effectiveness, sector leaders point to several areas of concern.

The sector's diversity in terms of organizational size and sophistication makes comparisons based on cost per dollar raised problematic. Some sector leaders argue that the measure is rooted in a view of charities as small, volunteer driven organizations, an image that no longer reflects a good portion of Canada's charitable sector. "The idea that an organization should be able to undertake its activities, including generating the revenue it needs to deliver programs and services, with little to no expense reflects a grassroots notion of charities," says Jan Belanger, Assistant Vice President, Community Affairs Great-West Life, Canada Life and London Life. "While there continue to be charities in this category that operate very effectively, many worthwhile and well-run organizations require more expertise and full-time resources to adequately manage increasingly complex activities and services. As a result, it's unrealistic to take a 'one size fits all' approach to assessing what constitutes a well-run charity."

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Additionally, there is concern that too singular a focus on fundraising cost effectiveness does not provide donors or the general public with a good sense of a charity's overall performance. "The way this ratio is positioned with the public leaves the impression that a low cost per dollar raised indicates good overall performance on the part of the organization," says Innes van Nostrand, Vice Principal, Upper Canada College. "The problem is that the ratio doesn't take into account other factors that are critical to how well an organization is performing – factors like the quality of services, the kind of fundraising being done, the longer term outcomes of programs or even whether donors gifts are being used as intended. As a result, for most charities, I don't think it is wise for it to be the sole or primary indicator of a charity's performance or worthiness for investment."

Interestingly, some sector leaders and industry observers also speculate that the charitable sector itself might be contributing to Canadians' expectations about how much expense they should incur to raise funds. Citing the often quoted selling feature "100 percent goes to charity", they wonder if it creates an unrealistic expectation on the part of the public about what it takes to raise funds and deliver programs. While some organizations are able to operate with almost no cost or are able to fund themselves through means like endowment income or special gifts that cover administrative expenses, others need to allocate a portion of funds raised to administration in order to be able to function effectively.

Being transparent about the cost of fundraising is important to BC Children's Hospital Foundation and the organization has made a conscious decision to be open not only about its administrative and fundraising costs, but also about how they are funded. "We are fortunate to have a portion of our administration costs covered by endowment income, which enables us to allocate a larger portion of the funds we raise to the Hospital and its priorities," says Sue Carruthers, President & CEO, BC Children's Hospital Foundation. "Whenever we talk about the percentage of funds that we are able to allocate to programs and services, we include this qualifying information as we feel it is important for our donors and the public to understand the full context."

Who cares?

Responsible management of fundraising costs continues to be of significant importance at the charitable organizations we spoke to. "Our board and senior management take the issue of managing our fundraising costs very seriously," notes Tennys Hanson, President and CEO of Toronto General and Western Foundation. "We approach our budget setting exercise thoughtfully and are always considering how best to use our donors' contributions."

Research reveals that cost of fundraising is also an area of interest for the general public. A 2008 survey funded by the Muttart Foundation reveals that while Canadians generally trust charities, the cost of fundraising is important to them. Although the vast majority of survey respondents (93 percent) agreed that it takes a significant effort for charities to raise the money they need, 58 percent nevertheless felt that charities are spending too much money on fundraising.

Interestingly however, while these results indicate that fundraising effectiveness is a concern to the public in general, it does not appear to be so for donors in relation to the charities they support. All the organizations we spoke with indicated that donors rarely bring up the topic of the cost of fundraising at their organization. "Anecdotally we hear that Canadians are concerned with cost of fundraising and we certainly appreciate and understand why that may be true," says Ron Dumouchelle, President & CEO, VGH & UBC Hospital Foundation. "However, in our experience, it is not an issue that is often brought to us directly by our donors. This could be reflective of the fact that we make it such an issue for ourselves internally, by making absolutely certain that our costs are reasonable and responsible."

Additional findings from the Muttart Foundation survey support the theory that fundrais-

Is lower really better?

The Nonprofit Overhead Cost Project, completed in 2004, provides an in-depth analysis of the overhead costs of charities, including their fundraising costs. The study had three phases: analysis of 25,000 IRS Forms 990, in depth case studies of nine organizations and 1,500 responses to a survey of U.S. non profits.

One of the study's findings was that very low overhead in nonprofit organizations often limited their effectiveness. It concluded that contrary to the popular idea that spending less in the areas of fundraising and administration is virtuous, their case studies suggested that nonprofits that spend too little on infrastructure have more limited effectiveness than those that spend reasonably. Examples of the consequences of limited infrastructure include sub-optimal fundraising results due to inappropriate donor database software as well as the need for the CEO to take on the role of key functions like development director in organizations where that role either did not exist or was filled with inexperienced staff.

For more information from this study on how low overhead limits charitable organizations, visit **www.kciphilanthropy.com**.

CRA Guidance

In order to provide Canadians with assurance and advice about what constitutes appropriate fundraising costs as well as to provide some direction to charities on reporting those costs, the Canada Revenue Agency has issued its Guidance to Charities on Fundraising. The purpose of the Guidance, a revised version of which was issued in June 2009, is to help registered charities comply with reporting requirements related to fundraising and to encourage self assessment of their fundraising activities.

Ratio of costs to revenue over fiscal period	CRA Approach
Under 35%	Unlikely to generate questions or concerns.
35% and above	The CRA will examine the average ratio over recent years to determine if there is a trend of high fundraising costs. The higher the ratio, the more likely it is that there will be concerns and a need for a more detailed assessment of expenditures.
Above 70%	This level will raise concerns with the CRA. The charity must be able to provide an explanation and rationale for this level of expenditure to show that it is in compliance; otherwise, it will not be acceptable.

Included in the Guidance are recommended fundraising cost to revenue ratios. In introducing these ratios, CRA notes that it recognizes the charitable sector is very diverse, that fundraising effectiveness will vary between organizations and that there can be good reasons for a charity to incur higher fundraising costs for a particular event or a particular year.

Reaction from the sector to the CRA guidance is generally positive. Non profit leaders welcome it and hope that it will be effective in helping to protect Canadians from charitable organizations that are not behaving ethically and responsibly.

ing cost effectiveness may be of greater concern to the average Canadian than to those who make charitable contributions. Respondents who made a charitable donation in 2007 were more likely than non donors to think it was appropriate for a portion of their donation to go towards the charity's operating costs. Additionally, those who deemed themselves familiar with the work of charities were more likely than those not familiar to think likewise.

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>
> *Moe Levy, Executive Director of the Asper Foundation*

Moe Levy, Executive Director of the Asper Foundation confirms that fundraising cost effectiveness is generally not top of mind when the Foundation makes its gift decisions. "When making a gift, our primary motivator is almost always our belief in the organization and the work that it does," he says. And even after making the gift, fundraising cost efficiency is not of primary concern. "While we insist on receiving annual reports from the organizations we support, we generally trust that they are being fiscally responsible and, as a result, prefer that their reports focus on the results they have achieved through our gift."

Honesty and legitimacy

Our conversations with sector leaders reveal that while the thinking about how best to manage fundraising costs within their organizations may be changing, they continue to be guided by the values of transparency and accountability.

"At the University of Montreal, we feel we are accountable both to the general public and to our donors," says Don Taddeo, Vice Rector, Advancement and Alumni Relations University of Montreal. "To that end, we strive to share as much information as we can with donors about how their contributions are used. We do this through our annual report as well as special reports to individual, corporate or family donors. We feel this accountability and transparency are important in building a relationship based on trust."

With the values of openness, accountability and transparency as an ongoing backdrop, more and more boards and senior managers are choosing to be directed by a philosophy of cost optimization as opposed to cost minimization. Using this approach, they strive to balance containment of annual fundraising costs with the wise reinvestment of funds into the organization so as to maximize fundraising returns.

Ken Mayhew, Chief Development Officer, Multiple Sclerosis Society of Canada makes the point that it is important to understand the difference between keeping fundraising costs at a minimum and legitimately spending money on fundraising. "In our organization we are almost entirely self-funded so achieving revenue targets in order to fund programs and services on an annual basis is always top of mind," he says. "But we also recognize that our capacity to meet these needs clearly requires us to invest in fundraising strategies and initiatives on an ongoing basis and we create our fundraising budget within the context of that overall goal."

At Sick Kids Foundation in Toronto, the senior team takes a very strategic approach to building its fundraising budget, looking at each fundraising program individually and setting a specific budget for each. "This bottom up approach allows us to analyze the cost of each program to ensure its validity," says Ted

What's the magic number?

When considering the cost of fundraising, it is natural for boards and management to want to stay within appropriate and reasonable limits. As a result, the question is often asked "What is the right cost per dollar raised?" Unfortunately, the short answer is "There isn't one".

COST SPECTRUM

High ($1.50)	ACQUISITION MAILINGS SPECIAL EVENTS DIRECT MAIL TO EXISTING DONORS TELEMARKETING
Medium	SPONSORSHIPS PARTNERSHIPS
Low ($.12)	PLANNED GIVING MAJOR GIFTS CAPITAL CAMPAIGNS

The concept of a "right" cost per dollar raised is a fiction. It may take one organization ten cents to raise a dollar while another has to spend fifty cents. And both can be ethical and responsibly managed organizations. "In my experience, the cost of fundraising can vary from one nonprofit organization to another based on a host of variables," notes Catherine Finlayson, Executive Director, Fanshawe College Foundation. "These include its age, the popularity of its cause, the skills of its development staff and, perhaps most importantly, the mix of fundraising methods and programs used."

While certain programs are costlier than others, they can still be important tools to maximize fundraising success. The decision to include costlier programs like acquisition mailings and special events should be considered in the context of the overall fundraising strategy. Additionally, as an organization's development operation grows and evolves, its cost of fundraising will change. For instance, major and planned giving programs do not generate immediate results. "Major donations take time to cultivate and planned gifts like bequests can take years before they are realized," notes Suzanne Bone, Executive Director, The Foundation of Guelph General Hospital. "As a result, in the initial years of implementation, the cost of fundraising may increase, only to decrease when these programs begin to yield a return on investment."

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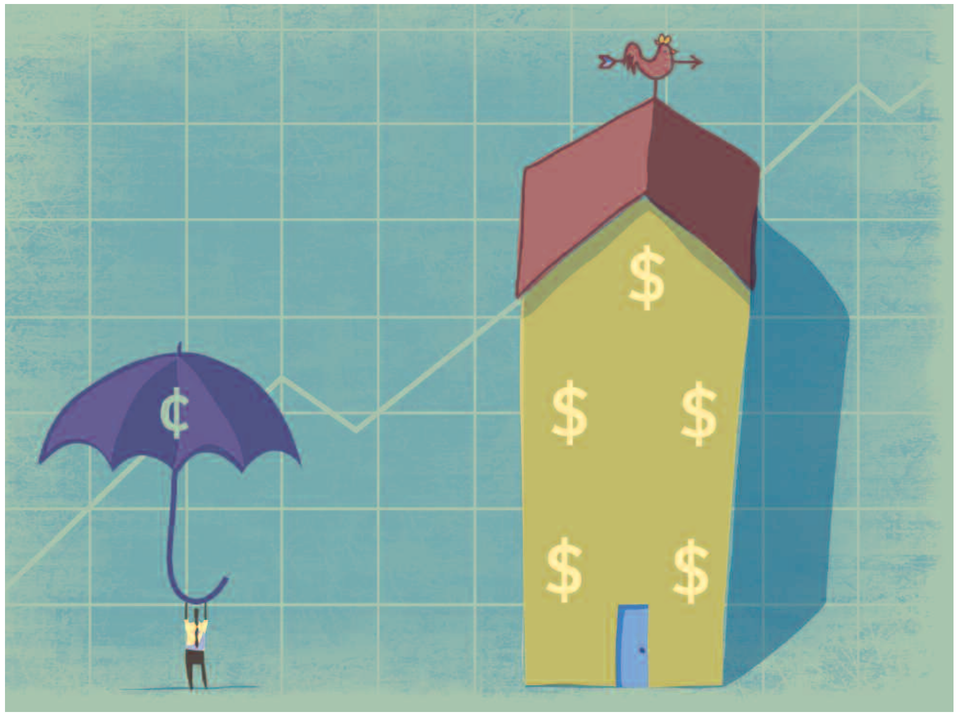
>
> *Cathy Daminato, Vice President Advancement, Simon Fraser University*



Garrard, CEO Sick Kids Foundation. "We then share the information on specific program costs with our Board to ensure that they understand the composition of our overall cost per dollar raised."

Only one of many indicators

The sentiment that cost of fundraising should not be the archetypal indicator of a charity's performance and worthiness for investment is gaining momentum and popularity. Many in the sector are working hard to encourage organizational stakeholders as well as the general public to take a broader look when measuring the efficiency, effectiveness and worthiness of a charity.

"While a factor, cost per dollar raised on its own is too coarse a way to measure sophisticated fundraising operations," says Innes van Nostrand, Vice Principal, Upper Canada College. "Although we monitor our cost of fundraising, it is only one of a number of metrics that make up the dashboard used by the board and senior management to monitor our fundraising and organizational performance, and it doesn't even rate in our Top 10."

There are also a number of organizations that are striving to help Canadians better understand how to assess charities and their performance. One of those organizations is Imagine Canada. Through its Ethical Code Program, which encourages charities to adhere to certain standards of management and transparency, it has created a mechanism that helps Canadians assess charities based on more than simply their cost of fundraising. By participating in this program, charities can demonstrate that they are committed to ethical fundraising and financial accountability, thereby signalling that they are well managed organizations. Another example is Charity Intelligence. Formed in 2006,

Benchmark with judgment

Benchmarking the cost of fundraising between organizations can be a challenging and troublesome activity for a number of reasons.

The cost of fundraising can vary significantly between organizations for very legitimate reasons. Additionally, the method by which organizations report their fundraising costs tends to vary, making it almost impossible to compare apples to apples. A recent American study undertaken by Indiana University and the Urban Institute examined IRS Forms 990 (equivalent to Canadian T3010's) of 25,000 organizations and found significant variations between what was included in cost of fundraising.

In order to minimize some of these challenges, leading organizations follow these best practices when undertaking benchmarking activities.

1) Understand how costs are reported at comparator organizations. As opposed to simply pulling information from T3010 filings, VGH & UBC Foundation compares itself to a select number of peer organizations. Before using the data from these organizations, senior management at the Foundation speaks to senior managers at the comparator organizations to understand how their fundraising costs have been calculated.

2) Use rolling averages. Recognizing that fundraising costs can legitimately fluctuate year over year, The MS Society prefers to look at a 3-5 year rolling average rather than one stand alone year whenever it undertakes internal and external benchmarking activities.

3) Benchmark program cost. Rather than benchmarking its overall cost of fundraising, Guelph General Hospital Foundation chooses to compare costs program by program where data is more easily compared.

Experience of smaller organizations

While fundraising cost effectiveness is an issue for all organizations, it poses particular challenges to smaller charities that are either in their infancy, struggling to survive or striving to advance to the next level.

For smaller organizations that are new or that are struggling to adequately cover their costs and deliver programs on current revenue levels, raising more funds would go a long way to relieving some of that pressure. The same is true for organizations that are looking to grow in order to optimize their ability to deliver on their missions. However, in most cases, an organization's ability to raise more money is not simply a matter of working harder or doing a better job with its current fundraising programs and resources. Raising more money often requires increased capacity, which can come in many forms including additional staff, improved technology or new programs. In turn, increased capacity often requires increased investment in fundraising, a scenario that, understandably, can make boards and management somewhat apprehensive.

Organizations that find themselves in these situations can take several approaches. One approach revolves around how to grow the organization's program and service offerings without putting too much pressure on fundraising capacity. Dean Brinton, President and CEO of The Rooms, Newfoundland and Labrador's largest public cultural institution, suggests that bolting on new programs is an effective way to build overall programming. "For organizations that are trying to develop, it may be more strategic to approach potential sponsors to support new, multi-year programs that are consistent with the sponsor's own brand positioning rather than asking them to support existing, core programming," says Mr. Brinton. "In this way, the organization does not create fixed costs that have to be covered through annual fundraising."

Another course of action is for board and management of organizations that find themselves in these situations to invest thought into how to grow the actual fundraising capacity of their organizations. They need to take a thoughtful and measured approach when deciding on the kind of investment to make in fundraising use good judgment to find the right balance between the short term objective of maximizing program allocations with the long term objective of growing the organization.

the charity endeavours to provide information to Canadians about the performance of charitable organizations based on a number of factors, financial and otherwise. Although two organizations with different mandates, they are both working to promote the need to use multiple measures when assessing a charity's performance and worthiness for investment. Finally, all our interviewees noted that the sector as a whole must continue to help the

public better understand what it takes for charitable organizations to raise the funds that fuel achievement of their objectives, whether they be large, complex organizations or smaller, grassroots charities.

"As a sector, we all need to be responsible about managing fundraising costs within our organizations," says Cathy Daminato, Vice President Advancement, Simon Fraser University. "However, we need to acknowledge that it costs money to raise money and stop feeling apologetic about it."

Ms. Daminato and others feel strongly that being open and unapologetic about reasonable fundraising costs is critical to helping organizational stakeholders and the general public develop a better understanding of the issue.

Rocking the boat

On a more radical note, there are some that are advocating a rethink about how society views charities, including a paradigm shift with respect to the standards under which the non profit sector is expected to function.

Leading that charge is Dan Pallotta who has written a book entitled *Uncharitable: How Restraints on Non Profits Undermine their Potential*. In it he argues that the charitable sector is being prevented from achieving its full potential because of the limitations placed on it by a well meaning public, citing constraints ranging from the fact that advertising by charities is frowned upon to the substandard wages that are paid to employees working in the non profit sector. Another limitation he identifies is what he deems the tenacious fixation on fundraising costs and overhead ratios at charities, arguing that the percentage question overlooks other important measures like total amount of money allocated as well as how well allocated dollars are used.

Next issue:

- *Our next issue will focus on developing tomorrow's non profit leaders*
- *Watch for it in December 2009!*

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