Barrier Title: Overhead aversion

# Related Terms

* Similar terms: Overhead bias
* Possible mechanisms: waste aversion, perfectionism; evaluability bias (for this versus other metrics); excuse-driven/motivated reasoning
* Distinct but related: corruption aversion

# Description

Potential donors may have a negative feeling towards a charity’s costs that are considered “overhead” rather than “direct spending on program activities.” This may make them reluctant to donate to charities that express a high “overhead ratio” and/or when they believe their donation will go to “pay for overhead”, and to favor instead charities that report low “overhead ratios”.

Discussion: There are some clear flaws in this logic (thus we may call it “overhead bias”): many things considered overhead are fixed or sunk costs which will not be changed by the amounts donated; thus, at the *margin* the donation may not actually go towards this overhead.

Marginal overhead is also possible. Suppose, e.g., the cost of an additional year of school tuition fees for a child are $200, but this requires an additional administrative cost of $50 to vet the student and her family, pay money transfer fees, fill out additional forms, etc. A donation of $200 earmarked for “tuition only” would require an additional $50 of these costs, which might be labled “overhead”. However, as this example suggests, many such “overhead” expenses are necessary parts of the mission, an increase its effectiveness (e.g., training employees, auditing, evaluating and targeting programs). On the other hand, we cannot rule out that in some cases high overhead might be a signal of inefficient practices. Where organizations have bloated annual operating expenses it might be more efficient for them to close down in the medium term and for that money to be used for leaner charities. (Several theoretical papers [ref: Steinberg ?1986 and later work] discuss whether or not the overhead ratios are a sign of efficiency.)

# Overview of Evidence

Survey and observational evidence suggests that donors focus on potentially misleading measures of overhead. Gneezy et al (2014) present a credible piece of field-experimental evidence suggesting that having a “lead donor” and framing this as “covering overhead” may increase donations. Metzger and Gunther’s (2019) lab participants donate (marginally) significantly less when presented with (the option to buy) information about a NGO’s administrative costs (perhaps because such costs were made salient). Caviola et al’s (hypothetical?) experiments suggest that *evaluability* may drive the focus on overhead rather than effectiveness. Portillo and Stinn’s lab participants favored overhead-free charities and preferred fundraising-related to salary-related overhead. Kinsbergen et al’s representative (Dutch) survey participants “have a strong aversion regarding overhead costs, [but]... seem to value the capacities of paid staff members and are, to a certain extent, willing to pay a price for these.”

# Conceptual Discussion

* How the concept works, etc. Provides context for evidence section
* Definitional issues, disambiguation, confusions to avoid
* Discussion of proposed/evidenced mechanisms and links to fundamental theories

# EG Relevance:

* How this particular barrier proves problematic for effective giving?

Study [ref] finds ‘no correlation’ between overhead and effectiveness-- is it convincing?

As noted above, overhead is an important input to the charity’s production function, enabing it to be effective. A biases against overhead therefore distort’s the donor choice of charity away from effectiveness. The other side of this coin: in an efficient market firms provide the services consumers demand. If consumers have a preference for firms that use a lower share of some input, this will “distort” the production process away from this input, making it seem artificially costly [ref: Reinstein and Song, others]. Similarly, if donors punish charities for excessive overhead, charities will use “too little” of inputs deemed to be overhead.

Note that doing impact evaluation will itself increase overhead. I.e., aversion to overhead will lead people to be biased against evidence-based charities that evaluate their own programs.

While the above concerns do not necessarily tilt against charities targeting overeas or lower-profile causes, it nonetheless represents a departure from efficiency in choice/provision of charitable services.

Furthermore, there is a reasonable case [todo: get evidence] that working in poor countries, countries that are further from the charity’s headquarters, and countries more distant from legal, financial, and other services *will* lead to a greater overhead ratio. This may be accentuated if the *basic* service (e.g., food, housing, or education) is cheaper in poor countries. E.g., sending a poor child in Chicago to a summer enrichment program might cost $4000 in fees and $500 to administer the scholarship, roughly 11% “overhead share” . Sending a poor Ghanaian child for a year might cost $300 plus $100 in administration, a 25% share.

# State of Evidence; key papers

Methodological issues

* Observational (correlational) studies: Overhead varies across charities in non-random ways; may be correlated to unobservable characteristics. There may also be reverse causality -- fundraising expenses both increase reported overhead and (presumably) drive donations.
  + Meer (2017) identified plausibly exogenous variation; but this pertained to *actual* incremental costs/prices, rather than the “overhead” costs at issue
* Field experiments can vary *presentation* or *framing* of overhead but not (typically) a charity’ *actual* administration processes (thus “overhead”)
* Lab experiments can vary the actual price of giving but this doesn’t represent the real-world “overhead” issue; others
  + In contrast, Metzger and Gunther varied the charity the subjects could donate to, but imposed a strong framing of the administrative costs as a marginal price).
* Survey and hypothetical vignette evidence (usual issues)

## Gneezy, Uri, Elizabeth A. Keenan, and Ayelet Gneezy. “Avoiding overhead aversion in charity.” Science 346.6209 (2014): 632-635.|

Gneezy et al (2014) ran a large-scale (N=40,000 [check]) mail solicitation on behalf of an organization seeking to fund as many US educational projects (each costing $20,000) as possible. Recipients were asked to give $20/50/100. They found that framing a lead donation as “covering[ing] all the overhead costs associated with raising the needed donations” lead to a significantly greater share donating and amount raised than either the control condition (no lead donation?) or a seed (“has given this campaign seed money”) or matching frame (“will match every dollar given… up to a total of $10,000”).[[1]](#footnote-0)

Note that while the framing differed, the *actual* treatment of the seed money in each case was the same; unless the charity could change the way it *administered* its programs between treatment, there is no clear way to experimentally vary the *actual* overhead.

This amounts to a clear piece of evidence that in such contexts *framing* overhead as being “covered” in this way may increase donations. However, it doesn’t reveal donors’ reaction to the reported measure of overhead *itself*. The effect may come from the particular salience of the way the lead donor’s (particularly selfless) act is portrayed, or it may be specific to overhead “*associated with raising … donations”* rather than administrative overhead, salaries, etc.

The same authors ran a *lab* experiment where they were able to vary the share of the subjects’ donation that actually went to the charity, labeling the difference (donation - amount passed) as “overhead”, and in a second treatment arm, whether this “overhead” was covered by a third party. The results were similar to the field experiment [CHECK, go into more detail]. However, this transparent “donation reduction” has little in common with the real-world costs usually depicted as “overhead”. In this lab experiment, a donor who cares about her marginal impact *should* consider the pass-through rate or “price”; this is not “overhead illusion”.[[2]](#footnote-1)

## Portillo, Javier E.; Stinn, Joseph, (2018). “Overhead Aversion: Do Some Types Of Overhead Matter More Than Others?”. Journal Of Behavioral And Experimental Economics, 72, , 40--50.

Lab experiment

"If an overhead-free donation is readily available, then the average donor in our experiment (70–80% of subjects) prefers that charity to receive the donation. However, if donations are not overhead-free, most (approximately two-thirds of subjects) prefer the donation go toward fundraising efforts instead of salary-related expenditures."

## Making an impact? The relevance of information on aid effectiveness for charitable giving. A laboratory experiment, Metzger L Günther, *Journal of Development Economics (2019) 136*

*(update notes from below)*

## Kinsbergen, Sara; Tolsma, Jochem, (2013). “Explaining Monetary Donations To International Development Organisations: A Factorial Survey Approach”. Social Science Research, 42, 6, 1571--1586.

## Hypothetical survey (vignettes, scenarios) “We constructed 960 scenarios in which a fictive [international] development organisation was described. … A large representative sample of the Dutch population (N = 2,758) received six randomly allocated scenarios and had to decide if, and if so, how much they would donate to the depicted (fictive) organisation…. Although donors have a strong aversion regarding overhead costs, we find that donors seem to value the capacities of paid staff members and are, to a certain extent, willing to pay a price for these.

## Meer, Jonathan, 2017 Effects of the price of charitable giving: Evidence from an online crowdfunding platform

* DonorsChoose platform involves plausibly exogenous variation in the cost of providing (the same) goods to teachers across projects (varying sales taxes, fullfillment, payment processing fees, etc).[[3]](#footnote-2) Fees are ‘explicit and salient’.
* Robust analysis (e.g., teacher fixed-effects) to address a potential endogeneity concern (saavy teachers economize on fees)
* An increased price of giving results in a lower likelihood of a project being funded. We also calculate the price elasticity of giving, finding estimates between −0.8 and −2.

However, this does *not* typify the overhead we are considering. Here, we see variation in the donot’s *actual* costs of providing outputs; as in Gneezy et al’s lab experiments, this is not “illusion”. While donor responses to e.g., greater fixed costs of maintaining an office in Malawi, or greater costs of identifying legitimately poor families *might* be similar, we do not know.[[4]](#footnote-3)

* Add: Evidence gap and suggestions for future work and approaches

# Solutions (add section)

* “Seed donor covering overhead”
* Simultaneous comparisons and evaluation of impact and overhead where relevant (Caviola et al)
* De-biasing?

# Other papers to look into and incorporate:

Borgloh, S., Dannenberg, A., Aretz, B., 2013. Small is beautiful - experimental evidence

of donors’ preferences for charities. Econ. Lett. 120 (2), 242–244.

Hope Consulting Survey:

“a recent survey found that only 35 percent of donors do any research before giving (Hope Consulting, 2012), this is a valid concern – though among those who did research, the most commonly sought information was some type of overhead ratio, and two-thirds were seeking some sort of information related to efficiency.”-Meer

## “Making an impact? The relevance of information on aid effectiveness for charitable giving. A laboratory experiment” Metzger L Günther, *Journal of Development Economics (2019) 136*

**“**We thus clarified that a decrease in administrative costs from 40% to 10% is equivalent to a 50% increase in net transfers to the recipient, in an attempt to make the administration costs group as comparable to the aid impact group as possible.” -- this oversimplified framing may be driving their results.

“A. a relatively small share of people makes a well-informed donation decision. B. the demand for information about aid impact is lowest, and it is highest for information about the recipient type. C. impact info didn't affect average donation, while information about the exact recipient type and administrative costs led to a significant change in donation levels.”

“In the recipient type group, informed participants donated significantly more than uninformed participants because they “rewarded” the preferred recipient with higher-than- average transfers. In the administration costs group, informed participants donated significantly less than uninformed participants because they used the information to “punish” NGOs with high administration costs.”

“only 28% of the participants in the bought ANY information (impact, who benefits overhead). Within that, highest demand for beneficiary, lowest for impact. Impact info no effect on giving. Knowing who benefits info increased giving. Overhead info decreased giving.”

**Caviola, L., Faulmüller, N., Everett, J. A., Savulescu, J., & Kahane, G. (2014). The evaluability bias in charitable giving: Saving administration costs or saving lives?. Judgment and decision making, 9(4), 303.**

“When presented with a single charity, people are willing to donate more to a charity with low overhead ratio, regardless of cost-effectiveness. When presented with two charities simultaneously, they base their donation behavior on cost-effectiveness”

**Bowman, W., 2006. Should donors care about overhead costs? Do they care? Nonprofit Volunt. Sect. Q. 35 (June (2)), 288–310.**

Meer… Are overhead costs a good guide for charitable giving?

Trussel, J. M., & Parsons, L. M. (2007). Financial reporting factors affecting donations to charitable organizations. Advances in Accounting, 23, 263-285.

Tinkelman, D. (1998). Differences in sensitivity of financial statement users to joint cost allocations: The case of nonprofit organizations. Journal of Accounting, Auditing & Finance, 13(4), 377-393.

Parsons, L. M. (2007). The impact of financial information and voluntary disclosures on contributions to not-for-profit organizations. Behavioral research in accounting, 19(1), 179-196.

Yörük, B.K. (2013). Charity ratings [this literature is not specifically on ‘overhead’; I should check how Charity Navigator factors this in]

Frumkin, P., & Kim, M. T. (2001). Strategic positioning and the financing of nonprofit organizations: Is efficiency rewarded in the contributions marketplace?. Public administration review, 61(3), 266-275.

van Iwaarden, J., Van Der Wiele, T., Williams, R., & Moxham, C. (2009). Charities: how important is performance to donors?. International Journal of Quality & Reliability Management, 26(1), 5-22.

1. Results

   \* Share donating: Overhead (8.5%) > %%\*%%%%\*%%%%\*%% Seed >= Match > Control (3.4%)

   \* Amount raised: Overhead ($2.31) > %%\*%%%%\*%% Seed, Match > %%\*%%%%\*%%%%\*%% Control ($0.80) [↑](#footnote-ref-0)
2. Other standard critiques of lab experiments in this domain apply here. [↑](#footnote-ref-1)
3. “...variation in the payment processing, optional support, and fulfillment fees described above; along with sales taxes and shipping fees charged by vendors. … the optional support fee changed twice over the course of our data and the payment processing fee changed once. The fulfillment fee, a fixed amount, changed three times in the time covered by the data. In addition, this fee affects the efficiency price of different-sized projects differently. The changes affected only newly posted projects; therefore, for nearly half a year after each change was implemented, active projects that might be otherwise identical had different fee levels.” [↑](#footnote-ref-2)
4. Furthermore, DonorsChoose doesn’t have clearly separate variation in effectiveness of the outputs which we could compare to the differential prices of providing particular outputs (fees, etc.), to potentially detect oversensitivity to the former. [↑](#footnote-ref-3)