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The Best and Worst Way to Pick a Charity

KEN BERGER



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Experts have noted that a one dimensional focus on nonprofit finances, if not supplemented by other information, can lead a donor/social investor to make the wrong decision as to which nonprofit they support. Except in extreme cases, we think that is correct. In addition, experts have noted that an *overemphasis* on overhead is misleading. We agree and always have. We further believe that the most critical dimension in evaluating a nonprofit has to do with achieving meaningful results. It is in that spirit that we jointly signed on to today's press release about overhead, with the BBB Wise Giving Alliance and Guidestar. On the other hand, we do not agree with those that say there is no place for overhead in evaluating charities.

That is why we think that many of [Dan Pallotta's arguments are extreme and "dead wrong."](#) I have more detailed explanations of my many disagreements with him [here](#), [here](#), [here](#) and [here](#). Specifically on the issue of overhead, show me a nonprofit that uses 70% of its funds for overhead and I predict with a great deal of certainty that it is an organization that is either clueless or focused on lining someone's pockets rather than effectively serving others. People may disagree on what the best metric of overhead should be, but to say overhead is irrelevant is to deny a useful indicator of where many thieves and scoundrels dwell. I have worked in enough nonprofits with unethical leaders to say without question that we need to get serious about their existence as more than a rarity (see the book [Silence, by Gary Snyder](#)). As noted above, this is not meant to imply in any way that overhead is the only metric donors should consider, but rather that it is an important data point.

This is exactly why, for a number of years now, we have been working towards a three dimensional rating system (which we now call CN 3.0). Specifically, we believe the three dimensions that must be considered for a social investor to have the critical information needed to make a wise decision are the charity's:

1. [Financial Health](#) (CN 1.0 launched April 2002) – Is the nonprofit sustainable? Does it have robust financial strength to survive in good times and bad? Is the overhead not at the extreme end of the continuum?

2. [Accountability & Transparency](#) (CN 2.0 launched September 2011) – Does the organization have ethical practices, good governance and transparency? Is it accountable to its constituents?

3. [Results Reporting](#) (CN 3.0 methodology launched January 2013) – Can the organization supply information about meaningful and lasting change in the communities and lives of the people it serves? Can they show evidence that these changes are as a result of their efforts? Do they have systems and processes in place to effectively manage their performance?

Some question whether people who are “casual” (i.e. not super rich) investors, care about this sort of information. Our answer is proven by data. We had over 6 million visits to our site last year by donors seeking objective data on how they should invest an estimated \$10 billion dollars of charitable gifts. That is with our existing, admittedly two dimensional rating system. ***Can you imagine the impact CN 3.0 will have on giving?***

I believe that this is a critical [battle for the very soul of the nonprofit sector](#). We ***MUST*** get past the notion that overhead is all that matters, while recognizing that efficiency and financial health is of critical importance in maintaining high performance and the best results for the long term. We ***MUST*** get past the notion of doing the “good work” with no accountability and transparency, because we know that charities without strong governance and ethical best practices are far more likely to have leadership problems. Once again, to maintain effective results we have to have these characteristics and policies in place. Finally, we ***MUST*** get past the idea that nonprofits are too complex or unique to be measured. I have seen it close up for years and it is not a pretty picture. The nonprofit sector must get its act together and make sure it is really helping provide meaningful and lasting change. It is life or death for many of those we serve whether charities are efficient, accountable, transparent and effective or not.

Posted by [Sandra Miniutti](#) at 9:24 AM

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Last summer I co-signed a letter to the donors of America called the “[Overhead Myth Letter](#).” The letter has gotten a fair amount of attention within the US nonprofit sector (at least among [the 1% of US charities that get 86% of the funding each year](#)). In addition, representatives of some of those larger charities have told me that, at least among some of their big donors and family foundations; it has been a helpful piece of information. The letter urges donors to look at “other factors of nonprofit performance” beyond overhead, because we believe that “focusing on overhead without considering other critical dimensions of a charity’s financial and organizational performance can do more damage than good”. However, for the average donor to charity, the letter may not be all that helpful, because the availability of information on “other factors” is few and far between.

This is especially true when it comes to the most important information of all – data on the results (including outcomes and impact) of a nonprofit’s work. After years of research we have conducted at Charity Navigator, we have come to the conclusion that the vast majority of nonprofits do not publically report meaningful information on their results. In addition, we suspect that the vast majority of nonprofits have NO SUCH DATA to share with the public! That is because they have never built the required performance management systems to measure what they do. Therefore, when I signed the Overhead Myth letter with my colleagues, I said to them, if we are not careful and take at least one additional step, we will have possibly done more “damage than good” ourselves. I said that because following the advice in the letter could lead the donors of America to a dead end. On the one hand we tell donors - don’t consider overhead as most important, but on the other hand - we do not have a place for them to go to get what is most important to consider. This could lead to nonprofits being even less accountable to donors than they are currently. Not good!

I do not mean to imply that it is entirely the fault of nonprofits for this state of affairs. In fact, there is a perfectly logical yet tragic reason to explain (but not excuse) why nonprofits are in this situation. The vast majority of funders do not provide the necessary resources for nonprofits to build the required performance management systems so they can provide meaningful information on their results. Although nonprofits are usually required to generate an endless stream of reports to their funders, they usually are more focused on activities and outputs rather than real evidence of social value (meaningful change in communities and people’s lives). At the same time the funders usually do not supply the resources (money and technical expertise) to help nonprofits develop the capacity to manage, measure and report on their results. So even when the funders ask for such information, the nonprofits typically end up going through a kabuki dance to appear to supply it, when in fact it is simply repackaged outputs.

However there is good news on the horizon on a variety of fronts. A lot of people are working hard to make more information on nonprofit organizations' results available to the public. In addition, there is a growing demand that funders (especially foundations) not just ask for nonprofits to report on their results, but show a willingness to provide the resources for nonprofits to build their capacity to better manage and measure what they do. So do not despair! Here are just a sampling of the efforts that are underway to provide nonprofits with the tools and donors with the information they need:

For Nonprofits: Check out these resources that can help you to get on the road to managing and measuring your performance: (1) [Perform Well](#) (2) [Keystone Accountability](#) (3) [Charting Impact](#) (4) [Social Solutions](#) (5) [Root Cause](#) (6) [Leap of Reason](#) (7) [The Center for What Works](#) and (8) [The Nonprofit Outcomes Toolbox](#). Whatever size and cause area your nonprofit works in, there is something available on this list to get you started.

For Donors: I admit I am biased but the only resource I know of that has the depth of analysis and scale (i.e. number of charities rated) that is working on compiling information on results for the average donor is Charity Navigator. Specifically, we call our new rating system CN 3.0. You can check it out [here](#).

Finally, at the beginning of this article I mentioned that there needed to be at least one more thing that we signers of the Overhead Myth letter needed to do. That is, to write a second letter to the Foundations and Nonprofits of America, urging them to make sure that they do whatever it takes to build the capacity to manage and measure results and to then supply that information to the donors of America. THAT is the road beyond nonprofit overhead!