

Reframing the Discussion about Nonprofit Effectiveness

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Executive summary

Organizations including Charity Navigator, the Better Business Bureau Wise Giving Alliance (BBB) and the American Institute of Philanthropy (AIP) have emerged as prominent nonprofit evaluation, watchdog or accreditation agencies. These agencies generate designations that are widely taken to be measures of organizational effectiveness, efficiency or accountability, influencing billions of dollars in charitable giving annually. This study examines the ratings systems of these three prominent agencies, explores their influence and derives recommendations for nonprofits, designation agencies and donors.

The designations provided by these agencies suffer from severe shortcomings. Failure to provide practical guidance about what designations ultimately measure contributes to ambiguity that can lead to misinterpretation. Ratios of financial inputs generally substitute for input-output measures of efficiency. Benchmarks are inconsistently applied across agencies due to differences in segmentation, calculation and accommodation, which can result in inconsistent designations. Designation systems rely on financial data of questionable quality and encourage high program spending without necessarily providing incentives for nonprofits to maximize the impact of their programs. Agencies including Charity Navigator are seeking to improve their systems, but these efforts are limited by the quantity and quality of information generated and credibly disclosed by nonprofits.

Nonprofits have an opportunity to reframe the conversation about nonprofit effectiveness from one focused on financial proxies to one emphasizing goal attainment and cost-effective programming. To facilitate this transition, nonprofits should augment their monitoring and evaluation capabilities and refocus attention on indicators of outcome accountability and cost-effectiveness.

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