

Nonprofit Organizations: An introduction to charity rating sources and cautions in their use

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Abstract

We describe services that rate the performance of charitable organizations in the United States as a potential source of data for comparisons by donors and may be of interest and use to researchers. Such services have the potential to be considered as a surrogate for quality metrics in the nonprofit sector. The three services considered, The American Institute of Philanthropy, Charity Navigator, and the Wise Giving Alliance of the Better Business Bureau, create different rating schemes. Statistical analyses of a dataset comprised of charities in the Nonprofit Times Top 100 clarify points of similarity and difference among the services. We conclude with several cautions for researchers interested in pursuing further research in this area.

Keywords

Nonprofit, charity, rating services.

Many management faculty members earned their PhDs in U.S. schools of business and know relatively little about the third sector, nonprofit organizations, or the very broad charity landscape in the country. At the same time, many faculty members donate time and money to support organizations different from those they have traditionally studied or taught about. For those who are interested in doing any research in the area or who have been called upon to teach courses like social entrepreneurship or managing the nonprofit organization, we offer an overview of the charity landscape in the United States. (This landscape includes not only charities that focus on domestic issues, but also many that serve the wider international community.) While U.S. citizens are not

the only people concerned with the welfare of others, the country arguably has the largest number of formal organizations operated for purposes that are beneficial to the public interest, including many that impact the lives of people in other countries. Our research interest and our focus on U.S. based charities, complement work on charitable organizations in other countries (c.f., Cairns et al., 2005; Hall, 2001.)

From our perspective, the major charity rating and ranking services that donors are encouraged to consult before making their donation decisions provide the kinds of information that a naïve researcher (new to the nonprofit world) might use to identify organizations to study or to define a sample for larger-scale research. In this article we focus on description and analysis of several major charity information services because they could be a good starting point, not only for learning more about organizations to support, but also for identifying individual organizations to teach about or for defining samples of organizations to study. At the same time, some cautions and red flags need to be raised about using these information sources.

Much of what has been written about services that rate or rank charities has been directed to the potential donor and not to the potential researcher. This article fills this gap with its focus on the scholar new to the area of nonprofit research, particularly those with an interest in studying charitable organizations.

It is widely reported that there are approximately 850,000 public charities in the US and nearly 40,000 new ones being formed every year (Koss-Feder, 2003). Against this backdrop, it is not surprising that several rating and ranking organizations have emerged to help people sort through data and information about charitable organizations. Originally designed to help potential donors, these information services might be useful

to scholars, as well. Such services could facilitate the selection of charities for large-scale research or the selection of charities that fit particular criteria. At a minimum, researchers need to understand what the different charity rating and ranking services do and how the services are similar or different from one another.

This article begins with a charity landscape description that underscores the importance of public charities in the United States. Then, we introduce the reader to the concepts of rating and ranking as they apply to this sector and describe different rating and ranking services. As an introduction to comparing the different services, we present rating data for 10 charities randomly selected from the *Nonprofit Times* “NPT Top 100.” Even in so small a sample, substantive inconsistencies among different evaluations (ratings) can be seen. Then, working with a larger sample of charitable organizations, we present some statistical analyses that explore relationships between ratings from different organizations and look at what predicts the ratings of different charities. In the final section of this paper, we offer some conclusions about the usefulness of these services..

The Nonprofit Sector and the Charity Landscape

Nonprofit organizations, including charities, are identified through provisions of the country’s regulation, tax treatment and charity law. In the US, a charitable organization¹ is exempt from federal income tax and is also eligible to receive tax deductible contributions from individual donors. The nonprofit sector of the US economy has witnessed what the Federal Reserve describes as “explosive growth” in terms of “total organizations, organizational mix, employment, revenues and assets” (Roisman, 2005). Internal Revenue Service (IRS) registration data show that the number of nonprofit organizations grew by almost 30 percent to 1,409,628 between 1996 and 2006

(National Center for Charitable Statistics, Urban Institute). Included in the over 1.4 million registered nonprofits are different kinds of organizations, namely public charities, public foundations, and non-charitable organizations. Between 1987 and 2005, the number of US charitable organizations more than doubled (Independent Sector, 2006). Between 1996 and 2006, the number of public charities grew to 850,312, an increase of almost 59 percent in 10 years. Taken together, public charities and private foundations have combined assets estimated to be nearly \$3 trillion (National Center for Charitable Statistics, 2004); public charities alone have assets of approximately \$2 trillion and revenues of over \$1 trillion.

As the number of charitable organizations has mushroomed, charitable donations have also increased substantially, reaching over \$306 billion in 2007, setting a new record (Giving USA 2008, Center on Philanthropy at Indiana University, 2008). Recent data suggest that approximately 90 percent of US households make charitable contributions (Independent Sector, 2006.) Donations by individuals (living and through bequests) account for approximately 17 percent of all independent sector revenue (Nonprofit Almanac & Desk Reference, 2002), over 75 percent of all charitable giving (Independent Sector, 2006) and amount to more than seven times the support provided by foundations (Giving USA, 2008). Of the almost 113.5 million households in the US in 2004, 39.5 percent itemized deductions; as a group these households contributed over \$161 billion to charity. Households that did not itemize contributed over \$37 billion to charity (Havens and Schervish, 2006).

All of these data suggest a fertile area for academic and practitioner research, but the question is how to start identifying “good” samples of charities on which to do

research. As the number of charitable organizations has ballooned, not only is the individual donor faced with more and more choices, so too is the researcher. With over 850,000 public charities and many new charities being formed each year, it is difficult to make good decisions – there are too many choices and too much information.

Ratings and Rankings

Although published ratings and rankings of charities focus on simple measures of performance, there is ongoing academic discussion about how performance in nonprofit organizations should be conceptualized and measured. There is considerable controversy around both models and metrics that nonprofits should use in evaluating their own performance and in helping to set direction and goals for the future (Brooks, 2006; Kaplan, 2001; Ritchie and Kolodinsky, 2003; Rojas, 2000). For our purposes, this controversy is beyond the scope of this article. Instead, we focus our description and analysis on the major information service organizations that rate or rank US charities and use the information they include in making their evaluative judgments. These information services include the American Institute of Philanthropy (AIP), the Nonprofit Times (NPT), the Better Business Bureau (BBB), and Charity Navigator (CHN).

The “bottom line” is that each of the services is designed to provide information that people will find helpful in defining and measuring various characteristics/qualities or the overall quality of a charity, whether the primary focus is efficiency or effectiveness. A brief detour into quality may help this discussion.

Quality

The concept of “quality” in economic terms has been discussed in many different arenas, with manufacturing organizations leading the way in the definition and practice of quality metrics in the US (c.f. Deming, 1986; Gavin, 1987 and Zu et al., 2008). In a sector that includes both for-profit and nonprofit institutions, health care organizations have long been concerned with quality issues, as evidenced by the extension in 1999 of Baldrige Award (www.quality.nist.gov) categories to include this sector. In 2006, legislation enabled the National Institute of Standards (NIST) to extend the Baldrige process to include U.S. based nonprofit, public or private, or government organizations, including charitable organizations. When the non-profit sector was added to the Baldrige standards, adjustments were made about many of the criteria because, for example, the workforce includes volunteers, products are programs, customers are stakeholders, and profits are expressed in terms of budgets. In 2007, the first year of the award for non-profits, there were two recipients, The City of Coral Springs, Florida, and the U.S. Army Armament Research Development and Engineering Center, Picatinny Arsenal, New Jersey, neither of which were charities.

Charities may not have the resources available to conduct even an informal review of their practices against the stringent Baldrige standards. Internally developed *balanced scorecards* (Kaplan and Norton, 1992) provide one alternative for nonprofits (Manville, 2007; Markham, 2003). In practice, many charities take advantage of the Better Business Bureau’s Wise Giving Alliance (www.bbb.org) and associated Standards of Accountability designed to advance high standards of conduct among organizations that solicit contributions from the public and to help donors make informed giving decisions. The alliance produces in-depth evaluative reports on national charities, and

charities that meet all 20 standards are eligible, for a licensing fee, to display the *BBB national charity seal* in their materials. This seal implies an assurance of quality to the public.

The BBB standards provide a tool for the professional managers and volunteer members of the board of directors of nonprofits to assess the quality of their organization. But, charities also rely on public donations to fund their work, and frequently to supply a large proportion of the revenue side of their operating budget. Donors, as financial stakeholders and possibly also clients (i.e., “customers”) or related to a client of the organization, may have different perceptions or judgments of quality (for an introduction to different perspectives on quality see, for example, Evans and Lindsey, 2005 pp. 12-16.)

While instruments such as the Baldrige criteria, BBB standards of accountability, and balanced scorecard approaches are valuable in assessing quality issues – or performance in terms of efficiency and effectiveness, especially in the use of donors’ monetary gifts-- in a single organization, potential donors often realize that they have a choice among several charities with similar missions and programs. Rating and ranking services have emerged to assist potential donors in assessing the relative merits of nonprofits, including assessing organizations across different segments of the non-profit sector.

Ratings and Rankings

With charity proliferation, it is difficult for people to sort through information about charities for purposes of donation decisions (contributors) or sample selection (researchers). Articles, especially around the end of the year, offer advice to potential

contributors on how to choose charities to support. Consumer Reports (2006) advises people to visit the charity “watchdogs,” the services that rate and rank charities in this country. Some advisors give specific targets to look for, like charities that spend less than 35 percent to 40 percent of revenues on fundraising and administration (American Institute of Philanthropy, 2006; Koss-Feder, 2003). In a *Market Watch* interview, Stamp, Executive Director of Charity Navigator, said that an “efficiency ratio doesn’t get at how effective the organization is....we have to use efficiency as a proxy variable at this point” (Coombes, 2003). The bottom-line is that there are thousands of choices.

For potential donors and researchers, the “watchdogs” can be an important resource to turn to. Some of these organizations rate charities on a number of criteria and assign summary ratings; others publish lists of charities rank-ordered along a specific performance dimension. While the stated purpose of all these organizations is to provide useful data, approaches and criteria differ. Some users of these services may be unaware of different approaches or of the methodology of a particular rating or ranking; others may recognize that different ratings exist but be confused by variations across the different information services.

For charitable organization, ratings and rankings are different. Ratings are applicable to all charities that can be evaluated on the stated criteria, although selection may be limited to charities that have formally requested evaluation, or those that an independent person or group has requested be evaluated. Rankings, on the other hand, are performed on a pre-selected group of charities by some objective measure, for example, reported revenues, or for a subjective reason, for example, interviews with philanthropy experts.

Ratings. The American Institute of Philanthropy (www.charitywatch.org), founded in 1992, provides an independent analysis of financial efficiency. The Better Business Bureau (BBB) Wise Giving Alliance (www.give.org), formed in 2001 through the merger of the National Charities Information Service with the Council of Better Business Bureaus' Foundation, advances high standards of conduct in national charities through its comprehensive Standards for Charity Accountability. The Charity Navigator (www.charitynavigator.org), an independent charity evaluator founded in 2001, provides objective, analytic evaluations of over 5,000 charities to advance a more efficient and responsive philanthropic marketplace. Their evaluations are free, for both the charities involved, and the user.

The rating services are summarized in Table 1, Charity Ratings. Each rating organization uses different dimensions and evaluative criteria, although all are concerned with operating efficiency, and use financial data taken from the Internal Revenue Service Form 990 manipulated and reported in categories generated by the watchdog group. (For an explanation of the scope of the IRS-990 see www.guidestar.org/help/faq_990.jsp#whatis990.) For example, the American Institute of Philanthropy (AIP) gives its A to F letter grade based on *charity efficiency*, using measures of program funding and costs of fundraising, while the Charity Navigator gives a zero to four star rating based on seven areas of *financial health* that include measures of program funding and costs of fundraising. The Better Business Bureau (BBB) Wise Giving Alliance is also concerned with measuring effectiveness, with standards for defined, measurable goals and objectives, and for program evaluation.

Name & Service	Purpose	Charities included	Rating process	Dimensions or categories	Methodology	Public access
American Institute of Philanthropy (AIP) www.charitywatch.org Charity rating guide and watchdog report. Independent research and rating.	Help donors make informed giving decisions.	Over 500 American charities of interest to AIP members. Charity evaluated on application by charity. If charity is a national organization, the local affiliates are not included.	Letter grade A=excellent B=good C=satisfactory D=unsatisfactory F=poor ?=insufficient info. If large asset reserves (> 3 years of available assets) charity is downgraded.	Classification by 36 different categories (e.g., Environment, Cancer, Crime prevention, Child protection, Senior Citizens, etc.) Charity efficiency calculated from: <ul style="list-style-type: none"> - Percent spent on charitable purpose - Cost to raise \$100 - Years of available assets - Does not include donated items 	Independent research. Uses financial records, cross checks information from state and federal filings. Currency: Ratings published three times a year. Each issue has about 1/3 updated and several new. Historical information available.	\$40 membership fee (to cover research costs)
Better Business Bureau Wise Giving Alliance (BBB Alliance) www.give.org Reports information on charity and compliance to Standards of Charity Accountability	Assist donors in making sound giving decisions and to foster public confidence in charitable organizations	Publicly soliciting organizations that are tax exempt under section 501(c)(3) of the Inland Revenue Code and other organizations that solicit charitable donations. Charities included are national charities and those that approach the Alliance Local Better Business Bureaus provide information on local affiliates of a national charity or local charities.	Evaluative report states whether each standard is met or not met, with reasons if it is not met. BBB National Charity Seal a charity that meets the Standards may display the seal on payment of an annual licensing fee.	20 Standards for Charitable Accountability Governance and oversight (5 standards) <ul style="list-style-type: none"> - The governing board is volunteer, active, independent and free of self-dealing. Measuring Effectiveness (2 standards) <ul style="list-style-type: none"> - Defined, measurable goals and objectives are in place - Defined process in place to evaluate success and impact of programs Finances (7 standards) <ul style="list-style-type: none"> - Spends funds honestly, prudently, and in accordance with fund raising appeals Fund Raising and Informational Materials (6 standards) <ul style="list-style-type: none"> - Charity's representations to the public are accurate, complete, and respectful. 	Standards developed by stakeholders in charitable organizations and the Better Business Bureau system. The charity provides specified information for an Alliance review. Report is shared with charity before publication. Currency: Ratings regularly updated and new charities added. Reports are generated based on the volume of inquiries received about an organization.	Free– online search and report generation

Name & Service	Purpose	Charities included	Rating process	Dimensions or categories	Methodology	Public access
<p>Charity Navigator www.charitynavigator.org</p> <p>Customized charity lists</p> <p>Assigns rating based on performance scores in each of seven areas.</p> <p>Does not identify best performing or rank charities.</p>	<p>Objective reviews of financial health of charities seeking public funding</p>	<p>501(c (3) with 4 yrs of Form 990</p> <p>>\$500,000 in public support</p> <p>Based in US and registered with IRS. Charity's work can be international.</p> <p>List is expanding. New additions by request from public. Once included, charity cannot be removed by its own request. List updated monthly</p>	<p>One to four stars</p> <p>Special logo for charities with four stars</p> <p>4 stars = exceptional</p> <p>3 stars = good</p> <p>2 stars = needs improvement</p> <p>1 star = poor</p> <p>None=exceptionally poor</p>	<p>Classification by types of programs and services provided and by the way they function financially</p> <ol style="list-style-type: none"> Broadly defined categories More narrowly defined causes within each category. <p>Financial health (total of 7 areas):</p> <p>Organizational efficiency</p> <ul style="list-style-type: none"> - Expenses for program, administration, fundraising. - fundraising efficiency: how much spent to generate \$1 - Score adjustment to compensate for deficits <p>Organizational capacity</p> <ul style="list-style-type: none"> - Growth in primary revenue and program expenses - working capital ratio 	<p>Reports publicly available information supplied on IRS Form 990. Obtains information from IRS</p> <p>Evaluate over 4 year period</p> <p>Currency: Updated within a month from when charity provides latest IRS-990</p>	<p>Free, but need to register.</p> <p>Online service: Request information by charity</p>

Source: Website of each rating service, accessed September 2008

Table 1. Charity Rating Services

Ratings provide users with a quick benchmark and the implied assurance of an independent examination. A “BBB National Charity Seal” or “Four Star Logo” strategically positioned on the charity’s website or in fund-raising materials symbolizes an external validation of the charity’s work. A cursory review of the watchdog organizations’ websites suggests that these are reputable organizations that have objective measures and provide resources for responsible, informed giving. Although each site provides a brief description of the methodology used to prepare its rating, none seems to provide a rationale for the choice of measures or a discussion of limitations of its rating system. An interesting side note is that the watchdog organizations are themselves nonprofits and depend on foundations, memberships, and private donations for their funding – just like the organizations they evaluate.

Rankings. A number of publications provide rankings of charities on different criteria. Examples include *Worth*, *Forbes*, and *The Nonprofit Times (NPT)*. For our purposes, we used *The Nonprofit Times* which ranks the nation’s charities by total income. Although rankings are based at least in part on the IRS Form 990, charity financial reporting may be inconsistent or inaccurate (Borochoff, 2006). The IRS revisions for 2009 reporting promise to improve transparency in a charity’s finances (Spector, 2008). NPT’s largest 100 charities include many well known charities.

The NPT Top 100	Purpose	Charities included	Reported financial data	Methodology
Published in November each year in <i>The NonProfit Times</i> www.nptimes.com Ranking by income based on IRS-990 filing for previous year’s income.	Purpose of NPT is as the “Leading business publication for nonprofit management.” 2007 is 19 th special report as an in-depth study of America’s largest nonprofits.	Those that acquired at least 10% of income from public support. Pass-through entities (e.g., United Way of America) and investment funds (e.g., Fidelity) are ineligible.	Total income (determines rank) Previous year’s income. Sources of income - Public support - Government - Investment - Membership fees - Program services Other	Compiled and analyzed by the New York City office of Grant Thornton LLP. Uses Form 990 and additional information requested from charity, e.g., consolidated financial statements. Several hundred nonprofits evaluated.

Table 2. Features of the Nonprofit Times 100.

Additional data sources. For those donors and researchers willing and able to continue with their own research, the source data for ratings are publicly available. All the above ratings and rankings rely on the National Taxonomy of Exempt Entities (NTEE) classification system developed by the National Center for Charitable Statistics (www.guidestar.org/npo/ntee.jsp) and the IRS Form 990 as sources of data. Individuals can access these data directly and also create their own search screens through the Urban Institute's National Center for Charitable Statistics (www.nccsdtaweb.urban.org) and GuideStar (www.guidestar.org)

Comparison of charity ratings

The first question we were interested in exploring was the extent of congruence among the various published charity evaluations (ratings). To begin, we selected ten charities at random from the *Non-Profit Times* 100 Largest Charities list (2007) and display (in Table 3) the information and evaluations of each of the charities by the three different rating services. Also included is the charity's NPT ranking in 2006.

	1. Non Profit Times (NPT) ¹ www.nptimes.com		2. American Institute of Philanthropy (AIP) ² www.charitywatch.org		3. Charity Navigator ³ www.charitynavigator.org		4. BBB Wise Giving Alliance ⁴ www.give.org		
List	Organization	100 Largest 2007/2006	Description: Category	Grade	Description	Overall Rating	Description: Stated purpose	Standards of Charity Accountability	National Charity Seal
1	YMCA of the USA (national organization) www.ymca.net	#2 / #1	Human Services	A	We build strong kids, strong families, strong communities	3 star	Not listed	Assume has not requested a review	No seal
2	World Vision www.worldvision.org	#14 / #13	Child Sponsorship	A-	Building a better world for children	4 star	Christian humanitarian organization dedicated to working with children, families, and their communities worldwide to reach their full potential by tackling the causes of poverty and injustice.	Meets all Standards	Displays seal
3	Food for the Poor www.foodforthepeople.org	#18 / #20	Hunger	C-	Ministering to spiritually renew impoverished people	4 star	To improve the health, economic, social and spiritual conditions of the poor in the Caribbean and the United States	Meets all Standards	Displays seal
4	CARE USA www.careusa.org	#23 / #24	International Relief	A	Defending dignity. Fighting Poverty	4 star	To serve individuals and families in the poorest communities in the world	Meets all Standards	Displays seal
5	Public Broadcasting Service www.pbs.org	#32 / #30	Not listed	Not rated	Not listed	Not rated	Not listed	Assume has not requested a review	No seal
6	Compassion International www.compassion.com	#48 / #54	Child sponsorship	A	Releasing children from poverty in Jesus' name	4 star	To advocate for children, to release them from their spiritual, economic, social, and physical poverty and enable them to become responsible and fulfilled Christian adults.	Meets all Standard	Displays seal
7	Mental Health America (National Mental Health Association) www.nmha.org	#69 / #55	Mental health & retardation	A	Leading the way for America's mental health	2 star	To promote mental health, prevent mental disorders and achieve victory over mental illness through advocacy, education, research and service	Meets all Standards	No seal

	1. Non Profit Times (NPT)¹ <i>www.nptimes.com</i>	2. American Institute of Philanthropy (AIP)² <i>www.charitywatch.org</i>	3. Charity Navigator³ <i>www.charitynavigator.org</i>	4. BBB Wise Giving Alliance⁴ <i>www.give.org</i>		
List	Organization 100 Largest 2007/2006	Description: Grade Category	Description Overall Rating	Description: Stated purpose	Standards of Charity Accountability	National Charity Seal
9	Institute of International Education <i>www.iie.org</i> #71 / #72	Not listed Not rated	Not listed Not rated	Not listed	Assume has not requested a review	No seal
10	American Lung Association (nat. org.) <i>www.lungusa.org</i> #94 / #88	Health-General B	Improving life, one breath at a time 4 star	To prevent lung disease and promote lung health.	Meets all Standards	Displays seal

Table 3. Comparison of rating information for ten randomly selected charities.

Inconsistencies among the entries are immediately apparent. These include:

- Not all NPT top 100 charities are included in the ratings data bases.
- Inclusion on the NPT list does not guarantee rating by any one or all of the watchdog organizations. This is somewhat surprising because these charities are responsible for handling millions, and in some cases billions, of dollars from public support.
- Inclusion in the NPT Times list does not mean that the charity has been included in the BBB data set. This is because the BBB Wise Giving Alliance program is voluntary, and some of the largest charities find no need to participate.
- Not all charities that meet the BBB Wise Giving Alliance Standards of Accountability display the National Charity Seal in their informational materials. This seal is acquired through payment of a special fee by the charity. It is literally the Seal of Approval for which the charity must pay to receive (if it meets all 20 BBB standards).

Some differences in ratings are also striking:

- YMCA has an A grade from AIP, a three star (out of four) rating from Charity Navigator and no listing for accountability in the BBB Wise Giving Alliance.
- Food for the Poor has a C- grade from AIP, a four star (highest) rating from Charity Navigator, and displays the National Charity Seal.
- Mental Health America (formerly the National Mental Health Association) has an A grade from AIP, a two-star rating from Charity Navigator, and been examined by the BBB Wise Giving Alliance and adheres to the 20 Standards

of Accountability. However, the charity has not purchased the license to display the National Charity Seal in its informational materials.

Data Analysis

Several statistical analyses were performed using data from the three rating services (AIP, Charity Navigator, and BBB). Each of our analyses was intended to answer a different question about charity ratings. In this section, questions are presented, followed by the analysis and results. (SPSS, version 16.0, was used for all data analysis.)

Question 1. Is there a relationship between/among the evaluations of the three rating services? For this analysis we used the number of stars (1 – 4) awarded by CHN, the grade (F to A+, converted to 0.0 to 4.33) given by AIP, and the number of standards met (up to 20) by the Better Business Bureau. Included in this data set were all charities that appeared on the NPT Top 100 list for 2007 and 2006, as long as they were also included in at least two of the following data bases: Charity Navigator, Better Business Bureau, and AIP. This gave a total of 81 charities.

Analysis and Results. For AIP, holding more than 3 years worth of assets is considered excessive, and charities that do so are downgraded. Thus, AIP gives two grades to some charities. The correlation matrix (Table 4) includes the AIP grade, the AIP adjusted grade (doesn't affect very many charities), CHN stars, and the number of BBB standards met.

		AIP grade	AIP Adj grade	CHN stars	BBB stds met
AIP grade	Pearson Correlation	1.000	.926**	.423**	.103
	Sig. (2-tailed)		.000	.002	.487
	N	56	56	51	48
AIP Adj grade	Pearson Correlation	.926**	1.000	.440**	.103
	Sig. (2-tailed)	.000		.001	.487
	N	56	56	51	48
CHN stars	Pearson Correlation	.423**	.440**	1.000	.126
	Sig. (2-tailed)	.002	.001		.390
	N	51	51	73	49
BBB stds met	Pearson Correlation	.103	.103	.126	1.000
	Sig. (2-tailed)	.487	.487	.390	
	N	48	48	49	57

** . Correlation is significant at the 0.01 level (2-tailed).

Table 4: Ratings correlations across the different rating services

It is clear that AIP and CHN evaluations are highly correlated. The number of met BBB standards does not seem to relate to either of the other two ratings. While this may seem surprising at first glance, it makes better sense if we look at what goes into the evaluation for each of the different schemes. For AIP, the focus is on fund raising efficiency and how much of the charity's funds are actually spent on programs. Very similar criteria are used by CHN, along with some additional ones that relate to other aspects of efficiency (administrative, for instance). The BBB system is quite different, akin to a balanced scorecard or accreditation approach. Thus, in addition to a financial assessment, the BBB includes, for example, an assessment of aspects of governance (frequency of board meetings, independence of board members) and assessment of fund raising informational materials and privacy concerns of donors.

Question 2. Are measures of fundraising efficiency and use of money for programs significant predictors of AIP and CHN ratings? Both of these rating schemes emphasize fundraising efficiency and programmatic use of funds in their descriptions and analyses of different charities. Thus, regression analyses were performed, using these variables to predict overall rating (number of stars for CHN and numerical grade for AIP).

Analysis and Results. Regression results (Table 5) show that use of funds on programs and fundraising efficiency are indeed both significant independent variables in the regression equations. In addition, the regression equations using these two variables give R squares of .530 (AIP grade) and .367 (CHN stars).

AIP grade		
Regression: AIP grade = 1.629 + .029X1 - .031X2		
R Square = .530 (p=.000)		
	Independent variables	Significance
	% of expenses spent on Programs (X1)	.005
	Cost to raise \$100 (X2)	.001
CHN stars		
Regression: CHN stars = 1.416 + .027X1 - .038X2		
R Square = .367 (p=.000)		
	Independent variables	Significance
	% of expenses spent on Programs (X1)	.017
	* Cost to raise \$100 (X2)	.000
* CHN variable cost to raise \$1 has been converted to cost to raise \$100		

Table 4: Regression analyses for AIP and CHN ratings

Because not all of the organizations in one data base were included in the other, for the following analysis, we included only those charities represented in both data bases. Fifty charities are in both data bases. Using this smaller sample, similar regression results are found.

AIP grade		
Regression: $AIP\ grade = 1.714 + .027X1 - .031X2$		
R Square = .487 (p=.000)		
	Independent variables	Significance
	% of expenses spent on Programs (X1)	.015
	Cost to raise \$100 (X2)	.002
CHN stars		
Regression: $CHN\ stars = .371 + .039X1 - .039X2$		
R Square = .513 (p=.000)		
	Independent variables	Significance
	% of expenses spent on Programs (X1)	.003
	* Cost to raise \$100 (X2)	.002
* CHN variable cost to raise \$1 has been converted to cost to raise \$100		

Table 5: Regression analyses for AIP and CHN ratings
(for charities with ratings by both AIP and CHN)

Question 3. Which dimensions or characteristics differentiate highly rated charities from charities that receive lower ratings? This question could well matter to researchers who might want to do comparative work – looking more closely at sets of highly rated and not highly rated charities.

Analysis and Results. In the full data set, new variables were created in order to compare the highest rated charities to all other charities. CHN star ratings (4 stars = highest rating; 1, 2, 3 stars = all others.) and AIP grades (A range = highest rating; B

range and below = all others). We found that, in most respects, highest rated charities do not look significantly different from those rated less highly. Indeed, in only a couple of areas did the AIP high/not high and the CHN high/not high show significant differences. Specifically, higher rated charities spent a higher proportion of their money on programs. In the AIP data base, the difference is approximately 11%; in the CHN data base, it is approximately 8%. Higher rated charities also spend a smaller percentage on fundraising. In the AIP data base and in the CHN data base, the more highly rated charities spend less than half the percentage spent by the less highly rated group. Not surprisingly, fundraising efficiency and program funding are not only the variables that best predict number of stars and grade, but they also distinguish between higher rated and lower rated charities.

Summary and Conclusions

This article was meant to serve as an introduction to the charity landscape, the charity rating services, and some of the interrelationships between and among the evaluations given by the different rating services. Several important conclusions should be highlighted. First of all, the three main services (AIP, CHN, and BBB) give rating results that are not entirely consistent. The American Institute of Philanthropy and Charity Navigator ratings are highly correlated; Better Business Bureau ratings are not. As discussed, this is understandable if one remembers that the BBB evaluation criteria are very different from those used by the other two rating groups. Looking only at those two rating services, for both, fundraising efficiency and programmatic spending are major factors in determining charity scores. These same variables also distinguish the

highly rated and the less highly rated for charities rated by AIP and for charities rated by CHN.

Researchers (and donors for that matter) are cautioned against relying on any one rating scheme to identify charities of interest. The only exception might be if one is particularly interested in the very different criteria used by the BBB rating service. AIP and CHN ratings are correlated highly, but, this does not mean that for any individual organization, there is consistency in the evaluations given. As we showed when looking at a sample of 10 charities in some depth, there were noticeable differences in how the charities were evaluated by the different rating services.

Our conclusion then, is to use these services, but spend time to really understand what is being measured and how. A simple reliance on any one rating scheme will undoubtedly give a skewed impression of individual charities and introduce unknown biases into whatever sample of charities a researcher might draw from a single source.

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Notes

1. A charitable organization in the US must satisfy several requirements to obtain the federal tax classification status of "501(c)(3)". These include the organization being organized as a corporation, trust, or unincorporated association, and the organization's organizing document (such as the articles of incorporation, trust documents, or articles of association) must limit its purposes to being charitable, and permanently dedicate its assets to charitable purposes. The organization must refrain from undertaking a number of other activities such as participating in the political campaigns of candidates for local, state or federal office, and must ensure that its earnings do not benefit any individual. The organization must file an annual record of its financial state ("annual tax form") with the Internal Revenue Service (IRS) on *Form 990*. (www.irs.gov/charities/charitable/index.html) In 2008 the IRS updated the Form 990 for the first time in 20 years. The revised form is for filing in 2009 and is designed to increase charities' transparency (Spector, 2008).