

Charity Rating Scales: The Challenge of Developing “Effective” Measures of Nonprofit Organizational Effectiveness

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Executive Summary

Charity rating scales (including but not limited to Charity Navigator’s rating scale, the Wise Giving Alliance Rating Scale of the Better Business Bureau, and the American Institute of Philanthropy’s rating scale) have provoked significant debate within the nonprofit sector. Charity rating scales and standards endeavor to serve a dual purpose: a) to promote transparency for donors concerning nonprofit operations, allowing them to make informed decisions about where to donate their money and b) to guide the behavior of nonprofit organizations along the dimensions of each raters’ scales or standards.

While encouraging informed charitable giving and transparency around nonprofit performance are laudable goals, there are some practical challenges associated with these rating scales that prevent them from truly presenting donors with a clear picture of organizational effectiveness. The fundamental challenge is simple; organizational effectiveness is a complex, multi-dimensional construct that cannot be easily captured with single measures, such as financial health. Additionally, there is a question as to whether flawed or incomplete measures of effectiveness do more harm than good for the nonprofit organizations being assessed. If these rating scales are promoting particular practices on the part of nonprofit organizations, more research needs to be done as to whether these practices will serve the long-term interests of nonprofit organizations and strengthen the sector as a whole.

The conclusion of this brief is that the complex nature of organizational effectiveness in the nonprofit sector precludes the development of a single rating scale that will ever provide the full picture of a nonprofit organization’s performance. Charity-rating scales should be redesigned to include more comprehensive measures of effectiveness.

Providing information to the public about nonprofit organizations and their operations is a laudable goal; the recommendation of this brief is that this could be done through continued support and investment in collaborative ventures designed to promote both better management in nonprofit organizations and more informed donors, such as accreditation programs designed to improve nonprofit performance rather than simply evaluating it and increased development of GuideStar as a central repository of information on nonprofit operations. In addition, the creation of centralized donation web sites (such as GivingFirst.org of the Community First Foundation) can create a way to provide detailed information on nonprofit organizations and their operations for donors to peruse and donate in one efficient process.

Collaborative ventures could encompass a wider range of information, with evaluators collaborating with nonprofit organizations. Improved evaluation and presentation of the information will better enable donors to explore their choices and make an informed and satisfactory choice.