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This paper was prepared for the course Corporate Social Responsibility taught by Professor Peter Gourevitch in the winter quarter 2011 at the School of International Relations and Pacific Studies of the University of California San Diego (UCSD). The papers have not been edited after having been submitted to the course. They are posted here to provided others with information and ideas about CSR, NGO's and the private sector.

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You Get What You Pay For



Independent Study-Final Project
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Introduction

With the 2008 Financial Crisis and the Haiti Earthquake, more and more donors demanded more accountability and transparency of charities. They looked to organizations known as ‘Charity Watchdogs’ to help evaluate these charities before making a donation. But, given the increasing number of these watchdogs, the question remains as to how they evaluate nonprofits and whether they are they doing a good job. More recently, the need for accountability was seen in the fallout after Greg Mortenson, author of *Thee Cups of Tea*, was accused of mismanagement of his Central Asia Institute and fabricating events in his memoirs. In response to this crisis of trust, Good Morning America brought in analysts from the American Institute of Philanthropy (AIP) to discuss this development and to illustrate Central Asia Institute’s gross lack of transparency given that it had not filed income tax in 13 years. To make matters worse, two state legislators in Montana have sued Mr. Mortenson calling for the revenues and donations from Three Cups of Tea be seized and placed in a trust for schools to be constructed in Pakistan and Afghanistan (Murphy). Why did Good Morning America choose evaluating experts at AIP over Charity Navigator or another rating organization? How do AIP’s evaluations achieve the goals of the donors? And, what are these goals?

What is the donor really looking for when they choose a certain charity watchdog? Legitimacy, proof of results, transparency, financial stability, or a rubber-stamp? The donor’s goals determine what kind of evaluation that they are willing to invest in and the subsequent quality of the evaluation. What kind of information does the donor want and more importantly, how much are they willing to pay for it? There seems to be a correlation between a low information cost and low quality. Charity Navigator, the American Institute of Philanthropy

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(AIP), the Better Business Bureau's Wise Giving Alliance (WGA) and the Maryland Nonprofit Standards of Excellence illustrate how the value of a charity watchdog evaluation depends on the its invested cost. This paper will compare the different metrics used by each Charity watchdog to examine the varying quality of evaluations.

Background

While Charity evaluators may appear to be a recent phenomenon, the actual history goes back nearly one-hundred years. The first charity evaluator was the National Charities Information Bureau (NCIB) that was established in 1918 in New York in response to purported abuses in war relief fundraising (Gordon, 12). In 1945 the Better Business Bureau's Philanthropy Advisory Service (PAS) started formally rating charities and PAS and NCIB merged to form the BBB's Wise Giving Alliance in 2001.

The question then arises, what has led to the influx of charity watchdog groups in the late 20th century? In the 1990's Congressional Legislation helped tighten the regulations surrounding nonprofits as an influx of money led to the growth of the voluntary sector (Worth, 116). However, the increase in fraudulent charity drives as argued by Prakash and Gugerty were due to the low barriers of entry and an influx of income from government, private and foundational funds that increased the probability of less than ethical nonprofits to enter the market (Prakash, 2). However, reports of abuses became widespread as illustrated by the United Way and American Red Cross scandals (Worth, 116). One study even reported that \$40 billion is lost every year due to fraud loss in the nonprofit sector, nearly 13% of the total donations to nonprofits in a year (Greenlee, 684). The push towards more accountability was given a shove in

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the wake of Hurricane Katrina when the FBI reports stated that they discovered 2,000 fraudulent websites that sought funds for disaster victims (Greenlee et al, 678).

Presently, individual giving comprises 75% of private donations in the United States, bringing in a staggering \$307.65 billion in 2008 (Givewell, 1). With 1.2 billion charities in the United States trying to discern information about which charity to donate to can be daunting to say the least (Williams, 1). While the internet has allowed for more information to be disseminated and democratized, it can cause information overload. With the increasing number of charities in the United States and the emerging number of charity watchdog evaluator organization, the market is becoming saturated. There is increasing competition between various watchdog organizations with new ones appears seemingly overnight. The lack of a comprehensive comparison between the four most well-known charity evaluators was the inspiration for this research. As demonstrated by the chart in Appendix 1, the different charity watchdogs are not clones of each other, but are rather different. These differences reflect a difference in value. While some of the criteria are self explanatory, target audience, metrics and the costs help reveal the true differences in quality of these charity evaluators.

Target Audience

Perhaps one of the best ways to ascertain the quality of the different charity evaluators is to posit about what are the goals of the person willing to donate to the different watchdogs. The type of person distracts us away from the goals of the person as the evaluation offers the product to the consumer who wants the evaluation. It is important that the prospective donor understand the differences between the charity watchdogs and examining the target audience is a way to clearly show the varying quality of the organizations. What are his/her goals? What will they pay

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for? And, how do the goals and price/payment interact? What does the consumer want and at what cost? What are the goals of the prospective donor as an evaluation consumer that would be best served by the information that the charity watchdog monitor provides?

Charity Navigator

The person who would be satisfied with the information Charity Navigator provides would be a prospective donor whose goals include examining the financial health at a low persona cost and comparing a bunch of different organizations. They may lack the time and or resources needed to evaluate and analyze myriad of charities. For this person, a quick financial ratio and the 4-star rating would be enough to convince them to donate to a particular charity. Charity Navigator is arguably, the easiest to access and understand, so it appeals to a broad range of clients and it provides a direct link to donate for each charity listed. Moreover, compared to the other three charity evaluators, Charity Navigator evaluates by far, more charities, so someone who is interested in comparing a couple different nonprofits would be well served by Charity Navigator. Since Charity Navigator only evaluates large national charities, the prospective client would most likely be motivated to gain some sort of recognition for their donation.

WGA

In contrast, a person whose aim is to obtain more information than just financial ratios would be pleased with the BBB's Wise Giving Alliance evaluation. Also, they would not care about the actual rating or number of stars, but would desire to see if the charity meets the standard or not. They would be satisfied by this more well-rounded approach that takes into how the charities govern their organization, the ways they spend their money, the truthfulness of their

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representations, the willingness to disclose basic information. Perhaps, these criteria line up with his/her giving goals that might be to choose a charity rater that is well established and they gain confidence from the Better Business Bureau's long history of helping the consumer fight fraud and by extension, place the same amount of trust into the WGA. Thus, the BBB's WGA has an evaluation of achievement that the donor may be willing to pay for.

AIP

The goals of a typical satisfied AIP user would most likely be a wealthy donor who cares about how financially responsible is the charity and its effectiveness to raise money as evidence by their willingness to pay a \$40 membership fee to obtain the ratings. But, their main concern is making sure that the charity uses its money responsibly effectively. Ultimately, they are concerned with how their money is going to be spent and they appreciate the newsletter that AIP sends out three times per year. It could be said that they are attracted to the grading system and feel confident that a letter grade of an A would denote a more reputable charity than a charity who received an F. They would also be concerned with excessive executive compensation and national charities.

Maryland Standards

An executive director or staff member of a nonprofit with aspirations of achieving legitimacy and recognition would be happy with the Maryland Standards. Given the small number of charities evaluated and the costs (both financial and time), it is very unlikely that an average donor would know about these standards. Instead, the Maryland Standards are very helpful to a struggling nonprofit executive director who is trying to prove the accountability and

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transparency of their organization. Thus, the prospective user (mostly likely a staff member of a nonprofit) must be willing and able to spend a good amount of time and money on qualifying for these standards which demonstrate their goals.

Evaluation Metrics

The different measurements that each of the charity watchdog organizations employ clearly demonstrate that the intrinsic value depends on its cost; the more simple the metric the less valuable it is. In other words, the less cost (of time) to perform the evaluation translates into a lower value of the information produced.

Charity Navigator

By examining the financial health of America's top charities, Charity Navigator hopes to provide to the prospective donor to, "guide intelligent giving. We help charitable givers make intelligent giving decisions by providing information on over five thousand charities and by evaluating the financial health of each of these charities. We ensure our evaluations are widely used by making them easy to understand and available to the public free of charge. By guiding intelligent giving, we aim to advance a more efficient and responsive philanthropic marketplace, in which givers and the charities they support work in tandem to overcome our nation's most persistent challenges" ("Charity Navigator-Mission").

To achieve their mission, Charity Navigator examines two metrics: financial health and accountability and transparency. Analysts examine the IRS 990 form (three years worth) to determine the financial health: organizational efficiency through program expenses, administrative expenses, fundraising expenses and fundraising efficiency and the organizational

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capacity as seen by scoring the primary revenue growth & program expense growth and working capital ratio. Next, the charity the charity is compared with other similar charities and assigned a score of 0 to 10 (10 being the highest) in all seven performance categories as well as three aggregate ratings for organizational efficiency, organizational capacity and total financial health. Finally, based on the total number of points they receive, the nonprofit is assigned zero to four stars (“Charity Navigator-How Do We Rate Charities”). However, Charity Navigator does not take the charities life-stage into consideration. For instance, a start-up nonprofit may need to spend a good amount on fundraising or PR costs just to get their name out there and to be recognized by the public before any of their programs start. But, while Charity Navigator compares organizations by category type, environmental charities and educational charities, within each category is a variety of organizations with different histories.

Figure 1 (“Charity Navigator-Our Ratings Table”)

Summation Scores

Rating:	★★★★	★★★☆☆	★★☆☆☆	★☆☆☆☆	0 Stars
Organizational Efficiency Score	≥ 37.5	32.5 - 37.5	27.5 - 32.5	22.5 - 27.5	< 22.5
Organizational Capacity Score	≥ 22.5	17.5 - 22.5	12.5 - 17.5	2.5 - 12.5	< 2.5
Overall Score:	≥ 60	50 - 60	40 - 50	25 - 40	< 25

Figure 2 (“Charity Navigator-What Do Our Ratings Mean”)

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No. of Stars	Qualitative Rating	Description
★★★★	Exceptional	Exceeds industry standards and outperforms most charities in its Cause.
★★★★☆	Good	Exceeds or meets industry standards and performs as well as or better than most charities in its Cause.
★★★☆☆	Needs Improvement	Meets or nearly meets industry standards but underperforms most charities in its Cause.
★☆☆☆☆	Poor	Fails to meet industry standards and performs well below most charities in its Cause.
NONE	Exceptionally Poor	Performs far below industry standards and below nearly all charities in its Cause.

Before explaining how Charity Navigator measures accountability and transparency, it helps to identify their definitions:

“Accountability is an obligation or willingness by a charity to explain its actions to its stakeholders, including government, donors, beneficiaries, and the public at large.

Transparency is an obligation or willingness by a charity to publish and make available critical data about the organization, such as its finances, governance and effectiveness.” (“Charity Navigator-How Do We Measure Accountability and Transparency?”)

To evaluate accountability and transparency, Charity Navigator examines the website of the charity to see if the following is easily accessible: listing of board members, key staff, audited financials, Form 990 and privacy policy. Then, the IRS Form 990 is examined to ascertain for accountability and transparency by examining the following items: loan(s) to related parties, material diversion of assets, documents board meeting minutes, provided copy of Form 990 to organization’s governing body, conflict of interest policy, whistleblower policy, records

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retention policy, CEO listed with salary, process for determining CEO compensation, compensates board, audited financials prepared by independent accountant and existence of an audit committee. While this information is important, it is not factored into the scoring process, nor is it independently evaluated (“Charity Navigator-How Do We Measure Accountability and Transparency”). Finally, although they do not affect the aggregate ratings, Charity Navigator also provides information on the following categories: CEO pay, income statement, mission and donating online.

Plans for Improvement-To be Implemented July 2011

In response to criticism that it relies too heavily on financial ratios, Charity Navigator plans to ‘update’ to C.N. 2.0 to include a more holistic approach through evaluating ‘results.’ According to the website, they will accomplish this by implementing a constituency voice and a web platform. To earn points under the constituency voice measurement, nonprofits that publish feedback from their clients will get many points. Charity Navigator will form a partnership with an organization called Great Nonprofits that specializes in channeling of feedback through an open system and Keystone which uses systematic data collection to produce benchmarked data sets (“Great Nonprofits”) (“Keystone-Analysis”). The web platform will enable Charity Navigator to, “train, certify, and guide an army of volunteer Charity Navigator raters” (“Charity Navigator-Where We Are Headed”). However, the website does not mention how these volunteers will be trained and for how long.

There may be a potential conflict of interest given that the Hewlett Foundation will provide Charity Navigator with a grant for \$75,000 to develop test using undergraduate and graduate students to assist with the ratings (“Charity Navigator-Hewlett Foundation”). The

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question arises, will Charity Navigator still be able to independently critique charities associated with the Hewlett-Packard Foundation? In May 2011, the Hewlett Foundation just donated \$100,000 to Charity Navigator to help improve its rating system (“Charity Navigator-Hewlett Foundation”). More disconcerting is that Robert Penna, a consultant for Charity Navigator since 2009, is the author of *The Nonprofit Outcomes Toolbox* which is a, “Hewlett Foundation-sponsored outcomes workbook for the nonprofit field, which has been endorsed by Charity Navigator” (“Charity Navigator-Board and Staff”). Given this close relationship between Charity Navigator and the Hewlett Foundation one may question if Charity Navigator is able to rate charities that have connections with the Hewlett Foundation without bias compared to other organizations that do not have a Hewlett connection.

Wise Giving Alliance

Compared with Charity Navigator, the Wise Giving Alliance provides a more comprehensive metric for evaluating the nonprofit. Using 20 metrics that focus how they govern their organization, the ways they spend their money, the truthfulness of their representations and their willingness to disclose basic information to the public. These wholesome metrics aim to, “helps donors make informed giving decisions and advances high standards of conduct among organizations that solicit contributions from the public” (“About BBB Wise Giving Alliance Donor Assistance”). The metrics were developed through a consortium of actors including members of small and large charitable organizations, grant making foundations, accounting industry, corporate contribution officers, regulatory agencies, research organizations and the BBBs. More interesting is that the WGA, “commissioned significant independent research on donor expectations to ensure that the views of the general public were reflected in the standards”

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(“Standards for Charitable Accountability”). The results of the evaluation which is conducted of many documents such as financial documents, board member roster and bylaws. If the nonprofit meets all 20 standards, they are awarded the following “meets the standard” logo or if they fail to meet all of the standards they are awarded an ominous looking logo (Please see figure 3 and 4).

Figure 3



Figure 4



Charity Seal Program

Starting in 2003, the Wise Giving Alliance Program offers a seal certification program for those charities that pass all 20 standards have the option of applying for the national charity seal that can be used in promotional material and online. To obtain the seal the charity must sign a licensing agreement, have completed two full fiscal years of operations and pay a fee based on a sliding scale. Based on the last fiscal year’s total charitable contributions received, the range of this annual fee is \$1,000 to \$15,000 (“Charitable Seal Program Fee Schedule-U.S.BBB”). While this may seem like an expensive cost, due to the BBB’s long standing policy of not allowing outside organizations to use the BBB name, large nonprofits who respect the BBB brand may find value in paying for a seal to be used on their websites.

AIP

The metrics that AIP uses are very basic and illustrate the low quality of information that some of these charity evaluators produce. The mission statement clearly reflects AIP's emphasis: "To maximize the effectiveness of every dollar contributed to charity by providing donors with the information they need to make more informed giving decisions" (*Charity Rating Guide & Watchdog Report*, 2). Relying solely on two financial ratios: the percentage spent on charitable purposes and the cost to raise \$100 the charity is graded from A+ to F which is drawn from information culled from the IRS 990 form and the audited financials. According to their website, an A rating denotes the charity as excellent, the B rating means good, C illustrates a satisfactory nonprofit, D equals unsatisfactory, F means poor and finally, an organization with insufficient information would get a "?" rating ("How American Institute of Philanthropy Rates Charities"). (Please see Figure 5 for an illustration)

Figure 5



The ratings are published three times per year and are only available to members and not found online. Regarding the percentage spent on charitable purposes, 60% would earn a satisfactory or C rating while a higher number like 75% would be demonstrated in the most efficient charities. For the cost to raise \$100, the lower the amount the better as AIP believes that \$35 or less is reasonable ("How the American Institute of Philanthropy Rates Charities").

While financial ratios are important to understanding how the organization is operating, they do not tell the whole story. With these trivial letter grades, there is a danger that the

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prospective donor might equate the grade with the value of the charity including how well it achieves its mission statements and gets results. Another issue is that this rating system does not take into account the situation of the charity; whether it is a fledgling or veteran organization impacts how much is spent and on what. Currently the AIP evaluation system only scores the financial health of an organization, it is not indicative of the success of a nonprofit as it relates to its program results.

Maryland Standards of Excellence

With 8 principles and 55 standards, the Maryland Nonprofit Standards of Excellence is the most stringent evaluator as the metrics range from financials to outreach activity. These tough standards help to achieve their mission to, “strengthen and support nonprofits’ ability to serve the public, while promoting the highest standards of ethics and accountability in nonprofit governance and management” (“Earn the Standards for Excellence Seal”). The Standards were developed by about 60 nonprofit executives, staff and board members over the course of a year. A unique feature is that they provide resources, classes and technical support to help with the application and certification process. The 8 guiding principles are: mission and program; governing body; conflict of interest; human resources; financial and legal; openness; fundraising; and public affairs and public policy.

To achieve the seal they must pass a rigorous certification program through a three-tiered process: essentials enhanced and certified. (Please see Appendix 2) The benefits of this approach are that an organization can start on level one or level three based on their needs and goals and it is easy to navigate. Level One is the most basic and expensive level and offers, “formally recognizes the achievement of Essentials Tier and your organization’s progressive toward full

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Standards of Excellence code implementation” (“Tiered Approach”). On the next tier, an annual report and a program evaluation (or at least 40% of total organization effort, whichever is greater) are among the benefits. Finally, Level Three provides the seal of excellence and organizations can state that they are, “ “Certified Under the Maryland Nonprofits’ Standards for Excellence”, “Awarded Maryland Nonprofits’ Standards for Excellence Seal”, or “Approved Under Maryland Nonprofits’ Standards for Excellence” or “is a Standards for Excellence® Accredited Organization.” After three years, the organization must apply for re-certification. (Please see Figure 6).

Figure 6 (Goodwill Industries of the Chesapeake, Inc)



Costs

Another important area where the charity watchdogs diverged was in the associated costs to get the ratings and to be rated. These costs are important since they demonstrate how lower quality information tends to be cheaper than higher quality information. For the prospective donor, it is vital to understand those organizations that require little investment in time and/or money often result in shoddy quality evaluations.

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Charity Navigator

For prospective donors who visit the site, access is completely free. The ‘membership’ requires a quick registration that involves disclosing an email address and name. Members are able to view three years of financial data for the charities, can save a list of their favorite nonprofits and can write a review about an individual charity (“Charity Navigator-My Charities Login”). For the charities that are evaluated by Charity Navigator, there is no financial cost and no time or documents that need to be submitted. In fact, a charity cannot request to be evaluated (“Charity Navigator-FAQ for Charities”). This asymmetrical evaluation may not be of the highest quality as it goes ahead and rates the charities without permission their or input. An example of the confusion this system can create was seen through an organization that was so concerned about getting a bad rating from Charity Navigator that they were hesitant to spend money to ensure an international aid workers’ safety abroad due to the high administrative costs (Preston). Thus, the ramifications of doing one-sided cheap evaluations have a high cost indeed. In the push to get as many shiny stars as possible, nonprofit leaders are faced with a perverse incentive to cut administrative costs in any way possible, even at the risk of a staff member’s life as shown through this example. The yellow journalism of the top-ten lists does not fairly or thoroughly evaluate the charities-thus giving the prospective donor a false sense of security and ultimately influencing donations to the detriment to other organizations that may have been doing a better job in achieving their missions and goals.

WGA

The Wise Giving Alliance provides free access to its charity reports for anyone online. Compared to AIP where a customer has to pay for bare-bones financial health information, the

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information provided on WGA's site is helpful. For example, in the case of Shiloh International Ministries which did not meet the standard, the website lists the evaluation conclusions that give specific reasons why it did not meet the standard. It concludes:

Standard 4: Compensated Board Members - Not more than one or 10% (whichever is greater) directly or indirectly compensated person(s) serving as voting member(s) of the board. Compensated members shall not serve as the board's chair or treasurer.

SIM does not meet this Standard because:

- 4 members out of the 5 member board of directors are paid staff including the board's chair and treasurer ("Charity Review of Shiloh International Ministries").

This information is very useful; perhaps more than a simple financial ratio or letter grade as it gives the specific reason why the organization is in the wrong.

However, there is a monetary cost associated with being in the optional Charity Seals program ranging from \$1,000 to \$15,000 depending on the size of the organization ("Charity Seal Program-U.S. BBB"). The credibility of the BBB helps sell charities on the value of investing in this seal program. It may influence potential donors when they see it listed on the BBB's website or on the individual charity's website. In this case, it is clearly demonstrated how a high cost leads to good, higher quality information. Investment of the charity into obtaining the WGA evaluation and the Charity Seals Program sends a signal of the quality of the evaluation itself which is that good information is not cheap, but requires an executive director to sponsor and approve it. This Seal may help build recognition among various nonprofit websites and legitimacy, although the quality given that the charity is not consulted with during the evaluation is somewhat suspect.

AIP

AIP is by far the most expensive for the prospective donor as it requires paying a membership due of \$40 to even see the breakdown of the ratings (\$200 for a corporate

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membership). Without paying the membership, it is possible to view the rated charities, but the only information provided is the letter grade of the top-rated charities (B+ to A+). The *Charity Rating Guide & Watchdog Report* published three times a year, provides the ratings and the ratings breakdowns of the charities. The ratings (including A+ to F) are clearly explained and presented in an easy to read chart that also lists the charity's top salaries. Although this grading system only covers two metrics for evaluation, it may be sufficient for some donors depending on their goals for the evaluation. In addition, the report also contains articles of interest to the prospective philanthropist. In the April/May 2011 edition featured articles such as, "Taxpayers Pay for Televangelists' Lavish Lifestyles," F Rated Charity and Its Fundraiser Should be Put on a Leash," "100% to Program' Claims Confuse Donors" and "USA Ranks 5th in World Giving Survey" (AIP Charity Rating Guide & Watchdog Report). This high investment cost produces a nice shiny report, but still only gives information about two financial ratios of a charity; the percentage spent of program services and the cost to raise \$100. While financial health is important, it is not the whole picture of the organization. Also, for \$3 AIP will send a sample of one copy of the *Charity Rating Guide & Watchdog Report*. In the author's experience, it took about a month to receive a copy of the report and it was not the most recent report (it was the December 2010 edition). For the nonprofit, the cost to be evaluated is zero and they cannot request to be rated either ("AIP FAQ-Giving Wisely to Charity").

Maryland Standards

For the consumer, the Maryland Standards evaluations are free to view online, but the information it provides is minimal-just a short synopsis of the organization and its leadership. However, for the charity who wants to be evaluated, there is a high cost involved. Depending on

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the type of certification, Level One, Two or Three that they choose, the application fee can range from \$600 to \$2300 for members while for nonmembers it ranges from \$1800 to \$6900 depending on the organizational budget. Furthermore, the licensing fee (which must be paid during the second and third year of the licensing period) for members is \$200 to \$650 and for nonmembers it is \$600 to \$3250 ("Earn the Standards for Excellence Seal - Standards for Excellence Application Starter Kit Request"). Also, there is an extreme time cost needed to complete the certification process that may require additional staff members or even take current employees away from their daily job responsibilities in order to apply for certification.

Membership dues are annual and depend upon the type of membership (nonprofit, emerging nonprofit or associate membership). For nonprofit organizations the prices range from \$100 to \$3,000 depending on the operating income. For new nonprofits, a small \$100 fee is required until they have obtained their 501c status then their dues are based on their operating income ("Become a Member"). While being a nonprofit member allows a nonprofit to save money when going through the certification process it offers other benefits such as organizational development (free technical assistance, newsletters, annual conference and peer-to-peer networking), operational support (discount rates on insurance and business services), professional development (including discount on classroom training) and advocacy support ("Save on Insurance and Services").

The associate membership includes benefits such as full website access, business discounts and invites to special events ("Associate Membership"). Besides a financial cost, to go through the certification process, the charity must complete an extensive application, submit multiple documents and send not one but five copies of the application by predetermined thrice yearly deadlines. The application itself is very time consuming and requires the cooperation of

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the board of directors and possibly outside help to help comply with the strict Maryland Standards. (For more details please see Appendix 3)

Staff Size

The differences in staff including the size and composition of the rating organization help the donor to differentiate between the varying qualities of charity watchdog evaluators. The key questions that need to be examined include: is there an appropriate ratio between the number of staff who does the evaluations and the amount of charities evaluated? Who does the evaluations and what are their qualifications? Do they outsource any of the monitoring?

Charity Navigator

Compared to the nearly 5,500 charities that they evaluate, Charity Navigator has a small staff size of 12 people. Of these 12 employees, only four are program analysts who are in charge of evaluating the large number of charities. Charity Navigator does not disclose the training it gives their analysts or any safeguard to make sure that each analyst is holding the charities up to the same rubrics. What is more worrisome is that under the C.N. 2.0 expansion plans, this organization hopes to drastically increase the number of charities monitored to 20,000 (which accounts for nearly 85% of the revenue in the nonprofit sector per year) ("Charity Navigator-Where We Are Headed").

To achieve this, Charity Navigator intends to enlist the help of an army of undergraduate and graduate student volunteers to assist with the process. In the Fall of 2010, the first pilot batch of volunteers was trained made up of students from six institutions and the second testing started in March 2011 and involved over 100 students from eight universities ("Charity Navigator-

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President & CEO's Report for May 2011"). While this is a cost effective method of scaling up one's operations, will the quality of the ratings suffer? Do prospective donors using Charity Navigator care if 18-year olds without a background in economics, finance or accounting are conducting financial ratios? It appears that Charity Navigator is attempting to valuing quantity over quality. This is in stark contrast to other watchdog organizations that have a more extensive training system and hire professionals to perform the evaluations.

WGA

The WGA has a small staff size of ten employees, but they evaluate over a fourth less charities than Charity Navigator. Of the staff of ten, four are research coordinators ("Wise Giving Alliance Staff"). Unlike the Charity Navigator website that gives biographical information about its employees that includes professional experience and education, WGA only gives their names. Some donors may wonder: who are these people who evaluate the charities and how are they trained? Are there any potential conflicts of interest among employees?

AIP

AIP has a very small staff of five people and only one is an analyst. AIP does not explain how the analyst is trained nor her professional experience or education. At AIP there are two staff members who are program assistant and one who is a program associate (*Charity Rating Guide & Watchdog Report*, 2). However one looks at it, that is a small number of people to handle five-hundred evaluations. Unlike some of the other charity watchdogs, AIP does not provide a bio about the staff which may be useful to prospective donors who are curious about the qualifications of those who are doing the ratings for the 500 plus charity organizations.

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Maryland Standards

Unlike Charity Navigator that tries to get more and more bang for its buck, the Maryland Standards has the most rigorous training program and largest staff. The staff of 22 people includes a Standards for Excellence Certification Manager, development manager and a program director. Moreover, there is an educational programs coordinator who coordinates the organization's training programs ("Contact Maryland Nonprofits"). Also, compared to AIP and WGA that do not give such information, the Maryland Standards provides a descriptive biography for each employee that includes job responsibilities, professional experience and educational history. By far, they have the most developed and organized staff. In addition, trained volunteers are utilized as peer reviewers that evaluate a charity's observance with the Standards for Excellence:

"Peer reviewers restrict their opinions to documents, activities, policies and processes that are covered by the Standards for Excellence. This ensures that all organizations are being treated alike, and that any potential biases of Peer Reviewers are avoided. Peer reviewers always have the opportunity to make suggestions to the Ethics Standards Committee for addition, deletion or revision of the existing standards" ("Learn About Maryland Nonprofits"). While this does not safeguard against bias, that fact that the Maryland Standards posts this explanation on its website demonstrates its understanding of the possible problems that may arise by outsourcing its monitoring to peer reviewers.

In addition to peer reviewers, the Maryland Standards also employs licensed consultants that provide support, training and consulting for the *Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector*®. Currently, there are 28 licensed consultants.

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During the three day license certification seminar, applicants learn about the Standards, gain access to training tools, two year membership to the Standards for Excellence Institute® and most importantly obtain a two year license to provide consultation on the Standards for Excellence® including the, “ability to mentor an organization through the process of incorporating the Standards for Excellence® to improve internal management and/or applying for certification to be awarded the Seal of Excellence” (“Licensed Consultant”). To be eligible for and to maintain the license, the candidate must attend the certification seminar, commit to evaluation and program reporting standards, achieve acceptable program evaluation ratings, and send periodic reports on relating training and consulting engagements. Please see Appendix 4 for more details regarding the licensing process.

This hands-on and supportive process indicates the strength in the evaluation system of the Maryland Standards. The other charity watchdog organizations do not offer any comparable technical assistance and they tend to work without the cooperation (and sometimes even knowledge) of the charity being evaluated. The dialogue between the nonprofit staff and the licensed consultant helps build a stronger charity and helps the consultant properly judge the charity instead of just computing financial ratios. While this process requires an investment in both time and money, the rewards appear to be worth taking as the charity emerges a stronger organization both financially and programmatically while for the prospective donor who happens to peruse the Maryland Standards website, he/she can be assured that the 77 certified charities have passed this rigorous evaluation.

Recommendations

Given the great variety in quality in charity watchdogs, prospective donors should consider and adhere to the following guidelines:

1. In general, the less the cost (financial and documentation) needed for a nonprofit to be evaluated the poorer quality of the actual evaluation.
2. When looking for a charity watchdog, consider what is important to you and your organization: financial responsibility, mission statement, transparency, effectiveness in its programs etc
3. Charity Navigator and AIP base their assessments on purely financial information that may not accurately reflect how well the actual programs are being run in terms of effectiveness.
4. Understand that a charity watchdog is not a substitute for a throughout evaluation of a charity and may not reflect its current state or take into consideration special circumstances such as different financial needs depending on the life cycle of the nonprofit.
5. A large number of charities evaluated is not a good thing especially when done by an organization with a small staff. This means that quality may be shirked for quantity. Can a staff of 12 properly evaluate nearly 5,4000 charities? How much time do they spend evaluating each individual charity?
6. Some charity watchdogs work with the nonprofit while others do not while they conduct their evaluation. If information is one-sided, what prevents the charity evaluator from making a totally erroneous claim about the charity? What incentive does the charity watchdog have to listen to the pleas of unfair ratings of the charity that it has just evaluated?

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7. What is the cost of free ratings information? What is the value of information provided by each watchdog organization? Given that there are no perfect ratings systems, what flaws are the most important to you as a donor?

Conclusion

Charity Navigator, the Wise Giving Alliance, AIP and the Maryland Standards provide differing quality of charity evaluations. The goals of the prospective donors help determine which watchdog organization that they employ. Charity Navigator and AIP provide a quick and dirty snapshot of the financial information of nonprofits, but fail to offer any comprehensive evaluation of how the organization is functioning or if it is even close to achieving its goals found in the mission statement. The Wise Giving Alliance with its more involved metrics looks at more than just the financial health, thus providing a better quality evaluation. Finally, the Maryland Standards demonstrate how high quality evaluation require a financial and time investment as they provide the most stringent and well-rounded evaluations by far.

Information is not cheap, nor should it be if the prospective donor really desires to get high quality evaluations of nonprofits. While this may seem fairly obvious, with the rise in popularity of lower quality watchdogs such as Charity Navigator and AIP, it seems that prospective donors are not seriously concerned about accountability and instead want a quick external validation that they have done the 'research' before deciding which nonprofit to donate money. As long as prospective donors are not genuine about demands higher quality evaluation system, the watchdog organizations will have little incentive to change or reform their metrics. This is bad for the consumers as they are flooded with information about the financials of a charity and may be mistakenly convinced of the quality of that information.

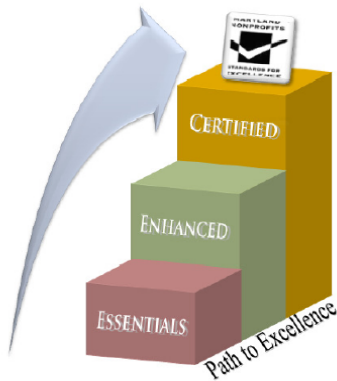
Appendix

Appendix 1 Charity Watchdog Comparison Matrix

Criteria	Charity Navigator	BBB's Wise Giving Alliance	American Institute of Philanthropy	Maryland Standards of Excellence
Established Target Audience	2001 Ave Am looking to donate lacks time and/or resources to evaluate & analyze myriad of charities	2001 People want more than finan metrics	1992 Wealthy donors who care about ratings	1992 Exe/staff of np who are looking for legitimacy & recognition
Usage	3.3 m visitors/yr ; Influence approx \$10b charitable donations	N/A	N/A	Ave 300,000 web hits per month, 2,576 requests for tech assist
# of orgs reviewed Staff Metrics	5,500 12 Org. capacity & efficiency; transparency & account	1,200 10 20 metrics; how they govern their org, ways spend their money, truthfulness of their representations, willingness to disclose basic info to public	Almost 550 5 % spent on charitable purpose; cost to raise \$100	77 certified 22 8 principles; 55 standards
Evaluation System	0-4 Stars based on org cap & efficiency score (higher is better)	Meets/Does not Meet Standard	A+ to F	Only lists those who meet certification
Does needed for evaluation	IRS 990	IRS 990, fin statements, bylaws, budget etc	IRS 990; audited finan docs	Finan, website, 990, bylaws etc
Offers Certification for Org.?	No	Charity Seal program; sliding scale \$1K-15K; 279 issued	No	Seal
Membership for Donors	Yes, can save charities & write reviews of orgs; get up to 3 years of finan. data	No	No	Yes
How does charity get rated?	Apply, nationwide; 3 yrs old	Apply, nationwide, or get complaint; 2 yrs old	Lg charities that receive \$1 million or more of public support annually & are of interest to donors nationally; cannot request eval	55 standards
Costs for charity	Free	Free	No	Sliding scale
Costs for prospective donor	Free	Free	Full access to reports \$40 membership fee; \$3 for sample	Free

Appendix 2 Maryland Nonprofit Standards of Excellence Tiered Approach

NEW TIERED APPROACH



Demonstrate Your Commitment to the Highest Standards of Ethics and Accountability

Start Right Where You Are - Journey Toward Excellence and Be Recognized as You Achieve!

Easier to navigate,
Go at your own pace,
Start at level one or three,
Each tier builds on the previous!

Tier One: The Essentials

Benefits

- Ease your way into the Standards for Excellence program
- Lower Cost
- Responsive to limited time and resources
- Formally recognizes achievement of Essentials Tier and your organization's progression towards full Standards for Excellence code implementation.
- Informal recommendations from program staff for future improvement and application to next tier.

Application process

- Submission of the Tier One application package and checklist and application fee.
- Completion of a free online self-assessment and orientation is also required.

Program staff will complete the formal review of the application.

Organizations can remain at this tier for a term of three years at which point they can re-submit certain documentation and remain at this tier for an additional term (fee applies). There is no limit to the amount of time an organization may remain in the first tier of the program.

Examples of what's included

- Plan to begin basic data collection strategies for program evaluation, and describe the introduction of this plan in one program.
- Board approved financial policy governing internal controls.
- All employees have position descriptions, if applicable.
- Template solicitation and acknowledgement documents, including all required disclosure documents.
- Conflict of interest policy approved by board.

Tier Two: Enhanced

Benefits

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- Discounts for quickly moving through the tiers.
- Ability to state completion of the Standards for Excellence Enhanced Tier.
- Additional informal recommendations from program staff for future improvement and application to next tier.

Application Process

- Prior completion of Tier One.
- Submission of the Tier Two application package and checklist and application fee.
- Completion of the free online self-assessment.

Program staff will complete the formal review process, with final approval by Maryland Nonprofits' Ethics Standards Committee.

Organizations can remain at this tier for a term of three years at which point they can re-submit documentation and remain at this tier for an additional term (fee applies). There is no limit to the amount of time an organization may remain in this tier of the program.

Examples of what's included

- Comprehensive program evaluation in place for one program or at least 40% of total organization effort, whichever is greater.
- Board approved financial policies governing internal controls and purchasing.
- Orientation process for all staff, volunteers, and board members.
- Annual Report, on website and/or in print, with all required information.
- Completion annually of conflict of interest statements by all staff, board members, and volunteers with significant authority.

Tier Three: Excellence

Benefits

- Earn and display the Seal of Excellence
- State that their organization is "Certified Under the Maryland Nonprofits' Standards for Excellence", "Awarded Maryland Nonprofits' Standards for Excellence Seal", or "Approved Under Maryland Nonprofits' Standards for Excellence" or "is a Standards for Excellence® Accredited Organization."

Application Process

- Can apply directly for Tier Three, or previously complete both Tiers One and Two.
- Submission of the application package and checklist and application fee.

Review Process

- Program staff will first review the application.
- Anonymous peer reviews will evaluate the application second.
- Lastly, the Ethics Standards Committee must approve the staff and peer reviewers' recommendation for certification.

The Standards for Excellence logo will be awarded for three years. After the first three-year period, the organization must apply for re-certification.

Once the first re-certification is awarded, the organization must re-apply only every five years. All 55 Standards for Excellence are included in the third tier.

Appendix 3 Suggested Final Check Ups Before Submitting Your Application (Maryland Standards)

- Make sure that the following items have been approved by your board:
 - Mission
 - Confidentiality Policy
 - Annual review of executive director compensation
 - Evaluation of executive director
 - Periodic review of overall salary structure
 - Review of annual percentage of expenditure in program, administration, and fundraising
 - Annual Budget
 - Conflicts of Interest
 - Personnel Policies/Employee Handbook
 - Volunteer Policies
 - Gift Acceptance Policy
 - Advocacy Policy
 - Document Destruction/Retention Policy
 - If your organization does not have general liability or directors and officers liability insurance, board minutes that indicate that the board considered and elected not to obtain such coverage.
 - Financial Policies
 - investments
 - unrestricted current net assets
 - purchasing practices
 - internal controls
- Did you enclose your check?
- Did you label all attachments so that staff and peer reviewers can review your application easily?
- Did your board president and executive director sign the application certifying that it is true and correct, policies outlined are followed, and all licenses, permits, insurance, and governmental approval necessary for operations have been obtained?

COPY

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