This chapter examines the effects that watchdog agency evaluations of nonprofit organizations have on private donations.

1

Effects of watchdog organizations on the social capital market

Jordan E. Silvergleid

One of the long-term residual effects of the “dot-com” boom may be found in the “dot-org” world. In the late 1990s, successful entrepreneurs and investors, flush with initial public offerings and stock-option winnings, began to practice “venture philanthropy” and invest in “social entrepreneurs,” hoping to replicate their business success in the social sector. Their results-oriented rhetoric, combined with several high-profile nonprofit financial scandals, contributed to calls for nonprofit accountability and a more efficient “social capital market,” in which charitable donations would flow to the most effective organizations, whether large or small (Meehan, 2002). Over the next several years, scholars and practitioners focused on identifying and quantifying nonprofit measures of performance to spur its development (Roberts Enterprise Development Fund, 2000; Murray, 2001). Today, accountability and performance measurement are part of most discussions about the future of the nonprofit sector.

Note: The author wishes to thank Felix Oberholzer-Gee of Harvard Business School and Tom Pollak and Kendall Golladay of the National Center for Charitable Statistics, Urban Institute, for their invaluable contributions to this project.
But is such a social capital market feasible? Even if it were possible to develop accurate and comparable metrics, would many donors (besides a few vocal venture philanthropists) necessarily shift their funding to higher-performing organizations?

**Foundations of giving**

Of the $241 billion that was given to nonprofit organizations in 2000, 11 percent came from foundations, 4 percent came from corporate sources, 5 percent came from bequests, and more than 76 percent came from individuals (AAFRC Trust for Philanthropy, 2003). What factors drive the flow of this money to specific organizations, particularly the more than three-quarters donated by individuals? Such knowledge is clearly desirable to fundraisers, especially given the much-heralded intergenerational transfer of wealth that, according to one estimate, will raise giving by $100 billion to $150 billion a year by 2010 (Smith, 2002). Numerous research studies have explored the factors that lead individuals to donate, including religious philosophy, social responsibility, “fellow-feeling,” the need to give back (or get back), enjoyment, and family influence. Schervish and Havens (1997) found that charitable giving increases in direct relation to the greater involvement one has in “communities of participation,” the more frequently and personally one is asked to contribute, the greater the number and intensity of charitable modeling in one’s youth, and the greater the amount of discretionary resources.

Yet, how important is nonprofit efficiency and performance to donor selection, factors that would ostensibly be the linchpin of a well-functioning social capital market? Although research on nonprofit performance has been hampered by inherent measurement difficulties, two primary lines of inquiry have been undertaken into the value placed on efficiency: public opinion surveys and empirical analysis of giving behavior. (In a third approach not discussed here, Parsons [2001] conducted a field experiment and found that prospective donors were more likely to make a contribution when
efficiency measures were provided directly with request funds. In another simulation, Parsons found that an average donation was greater when information about service efforts and accomplishments was provided. Public opinion surveys have shown strong donor interest in how organizations use their contributions. A 1988 Roper Organization survey found that the amount spent for programs was the second most important factor in the decision to contribute to a nonprofit, a factor that was rated as important or very important by 82 percent of respondents (Glaser, 1994). A later study from the Hudson Institute on the attitudes Americans have toward public charities found that nearly half of the respondents said that how much the recipient organizations spend on administration and fundraising influences their giving decisions (Stehle, 1998). Finally, according to a Better Business Bureau (BBB) Wise Giving Alliance Donor Expectations Survey (Princeton Survey Research Associates, 2001), respondents who say they are inclined to seek information about a charity before contributing are asked to describe in their own words what they most want to know. Close to half (48 percent) volunteer something related to charity finances, more than twice the number who specifically mentions any other issue. In addition, 79 percent of respondents in this study say it is very important to know the percentage of spending that goes toward charitable programs.

Given that survey results may reflect what individuals prefer to think are the factors that drive their donation decisions, empirical analysis of giving behavior may be more telling. Weisbrod and Dominguez (1986) developed a model relating donations to fundraising efficiency, fundraising efforts, and type of organization. Examining a sample of nonprofit organizations that file Internal Revenue Service (IRS) Form 990 for the four years 1973 through 1976, they found that fundraising expenditures exert two countervailing effects on donations: the direct effect (advertising and information) augments donations, but the indirect effect (by increasing the price of donating) reduces donations. The overall effect, however, is not significantly different from zero. Additional studies (Posnett and Sandler, 1989; Callen, 1994; Tinkelman, 1998; Okten
and Weisbrod, 2000) support this conclusion with other data sets (from the United Kingdom, Canada, and New York State) and different time periods.

Frumkin and Kim (2001) asked a similar question: is financial efficiency rewarded by donors? They examined Form 990 data from 1985 through 1995 and found that reporting low ratios of administrative to total expense and positioning an organization as efficient do not lead to greater success in garnering contributions; instead, nonprofit organizations that spend more in marketing themselves to the public (that is, through higher fundraising costs) do better at raising contributed income. They conclude that “strategic positioning through the aggressive communication of mission is a more potent driver of contributions than maintaining efficient operations” (p. 16).

Although it may appear at first that Frumkin and Kim’s findings contradict previous research, this is not entirely clear. Frumkin and Kim fail to consider how increasing fundraising costs may exert a lagged negative effect on contributions. Indeed, their measure of efficiency focuses on administrative costs as a percentage of total costs rather than administrative and fundraising costs, a combined percentage that donors appear to care about deeply. Another hypothesis that Frumkin and Kim (and other researchers) fail to explore is that although donors may care about efficiency, they may not care enough to overcome the search costs associated with procuring adequate financial information. After all, before GuideStar made Form 990 information available online (http://www.guidestar.org) in the late 1990s, donors would have to specifically request this information from potential donation recipients. Even in 2001, “many, if not most, Americans have trouble finding information they need to evaluate charities and make decisions about giving” (Princeton Survey Research Associates, 2001, p. 4). When they need information to make decisions about giving, only 49 percent of respondents say it is easy to find what they are looking for. And whereas people’s main source of information to help make giving decisions is charities themselves, only 50 percent of
Enter the watchdogs

In response to concerns about nonprofit accountability and the scarcity of information (among other factors), a handful of organizations has emerged to help donors navigate the charitable universe. As Table 1.1 illustrates, each organization scrutinizes charities according to selected criteria and either assigns them an overall grade or indicates that they have met its guidelines (in sum or in part). Although criteria vary, most organizations pay close attention to financial measures, such as percentage of funds dedicated to programs, fundraising, and administration and how much money the charity has in reserves (watchdogs dislike excessive stockpiling). Although no organization currently examines the effects of a charity’s programs, several look to see if the charity has an evaluation program in place.

The oldest and most venerable groups to evaluate charities are the National Charities Information Bureau and the Council for Better Business Bureau, which merged in 2001 to become the BBB Wise Giving Alliance. Both the original organizations and the newly merged group take a binary approach (charities either pass or do not pass the list of standards) and oppose the idea that they are “rating” charities. In contrast, the American Institute of Philanthropy (AIP) has assigned letter grades to charities since 1993 and often reallocates charities’ program expenses (such as “educational” mailings) as fundraising expenditures. Other organizations focus their efforts on certain states (Minnesota and Maryland) or subsectors (such as Ministry Watch, which rates some four hundred Christian organizations). In the past few years, financial publications such as *Worth, Forbes*, and *Smart Money* have begun to provide annual guides of charities to help their readers. Among the newest entrants is Charity Navigator, an ambitious watchdog that
<table>
<thead>
<tr>
<th>Name</th>
<th>Evaluated Charities Since</th>
<th>Cycle Time</th>
<th>Groups Evaluated</th>
<th>Rating Metrics</th>
<th>Criteria</th>
<th>How Charities Are Selected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council of Better Business</td>
<td>Better Business Bureau (BBB) system founded in 1912; current charity guidelines established in 2001</td>
<td>Regularly updated</td>
<td>N.A.</td>
<td>Organizations either meet each standard or do not</td>
<td>Public accountability Use of funds Solicitations and materials Fundraising practices Governance</td>
<td>Charities evaluated based on number of individual requests; these standards apply to publicly soliciting organizations that are tax exempt under section 501 (C) (3) of the IRS Code and to other organizations conducting charitable solicitations</td>
</tr>
<tr>
<td>Better Business Bureaus (CBBB)</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>National Charities Information Bureau (NCIB)</td>
<td>1992; merged in 2001 with CBBB to form BBB Wise Giving Alliance</td>
<td>Regularly updated</td>
<td>N.A.</td>
<td>Organizations either meet each standard or do not</td>
<td>Governance Purpose Programs Information Financial support and related activities Use of funds Annual reporting Accountability Budget</td>
<td>NCIB believes the spirit of these standards is useful for all charities; however, for organizations less than three years old or with annual budgets of less than $100,000, greater flexibility in applying some of the standards may be appropriate</td>
</tr>
<tr>
<td>BBB Wise Giving Alliance</td>
<td>2001, result of merger between NCIB and CBBB</td>
<td>Regularly updated quarterly publication</td>
<td>N.A.</td>
<td>Indicates whether or not charity meets each of the standards</td>
<td>Governance standards Measuring effectiveness Finances Fundraising and informational materials Address privacy concerns of donors</td>
<td>In response to inquiries from the general public, businesses, and other potential donors, provides impartial reports on organizations that conduct national or international fundraising or program services; in addition to reports on individual organizations, the alliance publishes the Better Business Bureau Wise Giving Guide,</td>
</tr>
<tr>
<td>Name</td>
<td>Year</td>
<td>Frequency</td>
<td>Minimum rating</td>
<td>Letter grade</td>
<td>Percentage spent on programs</td>
<td>Cost to raise $100</td>
</tr>
<tr>
<td>-------------------------------</td>
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<td>----------------</td>
<td>--------------</td>
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<td>--------------------</td>
</tr>
<tr>
<td>American Institute of Philanthropy (AIP)</td>
<td>1993</td>
<td>Triannual</td>
<td>N.A.</td>
<td>(A, B, C, D, F)</td>
<td>60 percent and more is “reasonable”</td>
<td>$35 or less is “reasonable”</td>
</tr>
<tr>
<td>Charity Navigator</td>
<td>2001</td>
<td>Regularly updated</td>
<td>1,750 and growing</td>
<td>Four-star scale (with associated numerical rating)</td>
<td>Short-term spending practices</td>
<td>Long-term sustainability</td>
</tr>
</tbody>
</table>

(continued)
<table>
<thead>
<tr>
<th>Name</th>
<th>Evaluated Charities Since</th>
<th>Cycle Time</th>
<th>Groups Evaluated</th>
<th>Rating Metrics</th>
<th>Criteria</th>
<th>How Charities Are Selected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry Watch</td>
<td>2000</td>
<td>N.A.</td>
<td>400</td>
<td>Assigns financial efficiency rating (five-star rating); assigns transparency grade (A-F); provides in-depth analyst comments on each ministry and subsector</td>
<td>Financial efficiency rating is assessed in terms of Fund acquisition Resource allocation Asset utilization</td>
<td>400 largest Christian ministries in the United States</td>
</tr>
<tr>
<td>Maryland Association of Nonprofits’ Standards for Excellence</td>
<td>1999</td>
<td>Self-selection</td>
<td>30</td>
<td>Binary: meets all criteria (and receives seal of excellence) or does not</td>
<td>Mission and program Governoring body Conflict of interest Human resources Financial and legal Openness Fundraising Public affairs and public policy</td>
<td>Offers a voluntary, peer-review, certification program for nonprofit organizations interested in demonstrating that they carry out the Standards for Excellence; organizations that prove compliance become certified; to participate, organizations must submit a written application, provide documentation, and pay an application fee; panel of trained peer reviewers assesses the applicant’s practices and determines if the standards have been met; certified organizations are given permission to use the Seal of Excellence, a symbol the public and donors alike can trust</td>
</tr>
<tr>
<td>Charities Review Council of Minnesota</td>
<td>Active in Minnesota since 1946; it standards revised in 1998 after two years of discussion and input from funders nonprofits, accountants, and individual donors</td>
<td>Regularly updated (a review is considered current for three years)</td>
<td>About 600 Organizations either meet all council standards or do not meet one or more standards</td>
<td>Public disclosure Governance Financial activity Fundraising</td>
<td>Initiates reviews with those charities about which the greatest number of inquiries are received; occasionally will also review a charity at its own request or at the request of a foundation</td>
<td></td>
</tr>
</tbody>
</table>

**SmartMoney Magazine 2000**

| Annual | 100 |

- **Total score and ranking within subsector (conservation, culture, and the like)**
- **Program ratio:** percentage of budget that goes toward program activities (65 percent weight in scoring)
- **Fundraising ratio:** how much it takes to raise $1 (25 percent weight in scoring)
- **Savings ratio:** percentage of incoming revenues that charity saves (10 percent weight in scoring)

100 largest charities in revenue

*(continued)*
<table>
<thead>
<tr>
<th>Name</th>
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<th>Criteria</th>
<th>How Charities Are Selected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forbes Magazine 2000 Annual 200</td>
<td>Calculates ratios and identifies direction of trend from previous year</td>
<td>Program ratio: percentage of budget that goes toward program activities Donor dependency: share of nonprofit’s surplus coming from contributions, as opposed to sale of goods or investment performance Fundraising efficiency: percentage of funds raised from gifts that remains after subtracting fundraising expenses</td>
<td>200 largest charities in revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Worth Magazine 2000 Annual 100</td>
<td>Inclusion on list of “best charities” or not</td>
<td>Each year, interviews “philanthropy experts” to develop a preliminary list of 200 national and international organizations that are nonpolitical To be included on final list, each organization must have a three-year track record and spend 65 percent on programs</td>
<td></td>
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Note: N.A. refers to not available; IRS refers to Internal Revenue Service.
seeks to provide comprehensive ratings (on a four-star and numerical scale) for 1,750 nonprofit organizations free of charge. Finally, for donors who pay a $1,000 fee, the Philanthropy Group, a Chicago company started in 2002, conducts site visits and prepares in-depth reports. GuideStar is also considering expanding its fee-based service to provide more in-depth comparisons of charities based on their missions, geography, size, and history.

Although many have applauded the sunlight that these organizations bring to the nonprofit sector, others have been both skeptical and critical. Specifically, critics contend that the standard metrics (such as financial ratios) do not tell the “whole story” and cannot be compared across different types of organizations. Indeed, one recent study found that nonprofit overhead costs and fundraising-efficiency ratios differ significantly with organizational size and subsector (Hager, Pollak, and Rooney, 2002). To address this claim, watchdogs hedge their evaluations with cautionary prose and encourage donors to perform more extensive due diligence. Others develop a charity’s overall ranking by comparing its ratios with those of subsector peers. In a recent chapter, Hopkins (2002) accused watchdog agencies of setting arbitrary and flawed standards (some of which disregard existing laws), of lacking the proper training and experience to effectively evaluate charities, and of falsely portraying themselves as neutral bodies applying voluntary standards (which are not, Hopkins contends, voluntary at all). All of these actions, Hopkins writes, “can cause great damage to charities that depend on public goodwill and financial support” (p. 446).

To date, however, little empirical research has specifically examined the effect that rankings and ratings have on charitable giving. To the extent that watchdogs reduce search costs for donors interested in efficiency, ratings might be expected to have an effect on contributions, in which case concerns about the appropriateness of their metrics might be warranted. At the same time, rankings may have no effect, leading to the conclusion that either they do not have enough visibility, that donors are “correctly” using such rankings only as a starting point, or that donors actually care less about efficiency than they claim in surveys.
I decided to test this question using ratings data from a national watchdog agency and from a more narrowly focused body, as well as information on contributions to the rated organizations (nationally focused and regionally focused charities, respectively). I was curious to see if there might be any difference between the two donor groups and hypothesized that donors giving to locally based and locally focused charities might be more motivated to obtain and consider the ratings assigned by a local watchdog.

**Data and methods**

It is surprisingly (and ironically) difficult to procure historical evaluation data from nationally focused watchdog agencies, which cite concerns over confidentiality, cumbersome filing, or lack of interest in providing such data. Nevertheless, I was able to obtain and examine AIP’s quarterly ratings for the years 1997 through 2000, which were published and distributed as part of its *Charity Rating Guide*. (For information on the guide, see www.charitywatch.org.) Across this time period, AIP rated between 307 and 368 public charities on a scale of A through F. In each report, AIP lists all organizations with new or still current grades broken down into thirty-seven subsectors such as AIDS or international development. For each organization, AIP identifies whether the evaluation is new, whether the organization was willing to provide data, the percentage spent on program services, the cost to raise $100, and a final letter grade. Each quarter, AIP evaluated or reevaluated about 20 percent of the organizations listed in each guide; moreover, nearly every nonprofit in the data set was reevaluated at least once. According to organizational literature, AIP periodically reevaluates nonprofits based on membership interest or the passage of time.

Locally focused charity ratings for the same period (1997 through 2000) were easier to obtain from the Minnesota Charities Review Council (CRC). Twice a year, the CRC publishes a list of organizations (both Minnesota-based and national groups) and the extent to which each organization meets its list of standards, rang-
EFFECTS OF WATCHDOG ORGANIZATIONS

ing from public disclosure to governance to financial activity. Of the approximately four hundred organizations evaluated across this time period, I identified 159 as being locally focused. This group includes state-based affiliates of national organizations, such as the Alliance for the Mentally Ill of Minnesota, as well as organizations with state-based headquarters and focus, such as Twin Cities Neighborhood Housing Services. Similar to AIP, CRC conducts reevaluations periodically, although it does not indicate which organizations have received a new evaluation.

For 95 percent of nationally focused organizations and 80 percent of Minnesota-based organizations, I obtained information provided to the IRS for one or more of the years 1997 through 2000 from the National Center for Charitable Statistics at the Urban Institute. Missing data appeared to be random, thus minimizing the possibility of selection bias. Nine organizations exhibiting questionable data were excluded, such as those reporting no private contributions in one year but large contributions in a subsequent year.

The model
Using two regression models, I sought to determine the effect that watchdog agency ratings have on private donations. The first model analyzes the extent to which a rating in the current period (1998, for example) drives contributions in the next period (1999) and thus assumes that ratings have a lagged effect on donations. The second model seeks to determine whether a reevaluation (which, in AIP’s case, might result in a lower, higher, or the same grade) has a significant effect on future donations. In other words, I tested whether charities that receive an A grade can expect higher donations than organizations that receive a C and also whether a charity that earns better grades over time can expect to see a corresponding increase in private donations. To facilitate this analysis, both models control for certain variables: net assets (because large organizations could naturally expect to receive more contributions than small organizations), year (because donors may have been
more or less generous depending on the prevailing economic environment), and subsector (because social problems often have different levels of support, regardless of the performance of the charity). I also tested each model while controlling for much more specific organizational characteristics to neutralize the fundraising effect of a charismatic or dull executive director or a successful public relations campaign.¹

Results

Effect of AIP (national level) ratings on private donation levels

Results from the first regression model demonstrate that AIP grades do not have a positive effect on private donations in the subsequent period. In fact, when controlling for year, subsector, and net assets, higher AIP grades actually drive lower private contributions, although by an extremely small amount.

Should these results be interpreted, therefore, that organizations should seek to earn lower grades? In fact, no. Variations of the regression model indicate that net assets, certain subsectors, and organizational-specific factors are the significant predictors of private donations in this model and that AIP grade appears to be significant only under certain conditions. Statistical significance in regressions measures the ability of the variable to explain the residual effect after taking into account all the other variables in the equation. If, as appears to be the case, those other variables (such as net assets) do a good job of explanation, then there is not as much unexplained variation left in the residual data as there was in the original data. Consequently, AIP grades do not have to be as strongly associated with private donations to rise to a level of statistical significance.

Results from the second model, which tests whether a reevaluation (resulting in a lower, higher, or similar grade) affects private donations in the subsequent period, indicate that there is no significant link. In fact, among the variables tested, only net assets reasonably predicted the change in donations, perhaps supporting the
claim that “it takes money to make money.” Nevertheless, and unfortunately for fundraisers, this second model is not useful for explaining changes in private donations. (Statistically, this model has an adjusted multivariate coefficient of determination of .02; 1.00 would indicate that the model has 100 percent explanatory power.) Overall, then, as can be seen in Table 1.2, AIP grades do not have a statistically significant effect on private donations.

**Effect of CRC (local) evaluations on private donation levels**

A similar analysis was performed for Minnesota-based organizations using data from CRC. As can be seen in Table 1.3, results from the regression model indicate that grade (defined as meeting or not meeting all of CRC’s standards) does have a significant positive effect on donations when asset size, year, and subsector are controlled. Organizations that met standards were more likely to earn higher donations in subsequent periods than those that did not meet standards. As with nationally focused charities, net assets are also a significant predictor of private contributions. In contrast, subsector is not a significant predictor, although this can perhaps be explained by the use of eleven subsector codes as opposed to AIP’s thirty-seven industry segments.

Does this mean, then, that donors are more apt to scrutinize—and base their giving on—evaluations of local charities? To such a question, we can answer only tentatively in the affirmative, if at all.

### Table 1.2. What drives private contributions to nationally focused charities?

<table>
<thead>
<tr>
<th>Variable tested</th>
<th>Statistically significant predictor?</th>
<th>If yes, positive or negative effect?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade by AIP</td>
<td>No&lt;sup&gt;a&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Net assets</td>
<td>Yes</td>
<td>Positive</td>
</tr>
<tr>
<td>Year</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Subsector</td>
<td>Only certain subsectors</td>
<td>Depends</td>
</tr>
<tr>
<td>Charity-specific characteristics</td>
<td>Yes</td>
<td>Depends</td>
</tr>
</tbody>
</table>

<sup>a</sup>In certain variations of the regression model, AIP grade demonstrates a statistically significant impact on donations (both positive and negative). Overall, though, the effect is not significantly different from zero.
Of the 125 organizations in the data set, 86 percent received perfect evaluations across all four years, and presumably their performance had been consistent in previous years as well. Therefore it becomes more difficult to draw a strong causal link between evaluations and donations because these high-performing (by CRC standards) charities might have enjoyed strong reputations (and relationships with donors) for many years. Put simply, the CRC evaluation might be a less critical component to the giving process for these organizations. Moreover, only six organizations experienced changing evaluations (both positive and negative), which is too small a sample to draw conclusions about whether changing evaluations affected donations in subsequent periods. Thus, although the extant data suggest that contributions to locally based and focused nonprofits are driven in a significant manner by ratings assigned by a locally based and focused watchdog agency, it is perhaps wise to claim directional accuracy rather than a firm conclusion.

### Discussion and conclusions

What can we make of these findings that, one, grades assigned by a national watchdog agency (AIP) to national charities are not a significant predictor of private donations, and that, two, evaluations of Minnesota-based and -focused charities by a state-based watchdog agency?
agency (CRC) appear to be a significant predictor of private donations? The conservative response to both findings would be “not much.” Clearly, a larger data set would provide more robust conclusions, particularly in the case of locally focused organizations.

Regarding the first finding, it is important to state clearly that the results of this analysis indicate that AIP grades assigned to nonprofits did not significantly drive giving patterns across the studied time period. However, the analysis does not explain why this is the case. It could be that some donors are highly responsive to ratings but that not enough are aware of them to make a significant difference. It might also be that donors are aware and interested in such grades but that their giving patterns are relatively inelastic when it comes to minor changes in grades (such as from an A to an A minus). Thus, only if a nonprofit experienced a drastic change in grade would we see a corollary change in private contributions. Another possibility is that (following the stated intentions of a number of nonprofit-watchdog groups) donors use grades as a launching pad and correctly realize both that financial ratios do not necessarily correlate with effectiveness and that programmatic expenses and fundraising costs may vary dramatically across organizations based on social cause and organizational age or size. Thus, although grades might be noted, they are simply one of a number of factors that influence the giving process, if they influence it at all. Finally, it is possible that whereas donors are aware of these ratings, they do not take them into account, perhaps because they disagree with the metrics or prioritize other factors, such as mission or personal relationships.

Regarding the second finding, although it is a theoretically attractive proposition to state that local donors pay more attention to local ratings of local charities, the condition of the data casts some doubt on this tidy conclusion. Moreover, as Angela Bies, former executive director of CRC, found in a previous survey of Minnesota organizations (2001), less than half of respondents shared review data with funders, and a number indicated that “too few donors know about or use the council’s services” (p. 65). What this
second finding may suggest, however, is that CRC’s nearly sixty years of operations have contributed to a high degree of standards compliance for the state’s major charities.

This conclusion begs the question of whether nonprofit organizations themselves respond to grades and evaluations. Here it is important to distinguish between AIP’s evaluation, which focuses on financial measures, and CRC’s, which involves a more comprehensive review process. According to the Bies survey of Minnesota-based organizations, respondents (nearly all of whom met all standards) reported making changes in several areas as a result of the review process: governance (36 percent), communications (35 percent), management (28 percent), fundraising (22 percent), financial management (17 percent), and strategic planning (13 percent) (Bies, 2001). And yet, among the eighteen organizations that did not meet CRC’s standards in this data set, thirteen did not subsequently improve their evaluations in later reviews. Moreover, a review of AIP reevaluations of organizations earning less than an A across the sample period revealed that 75 percent were the “same” or “decrease[d].” Because the components of these grades are more or less endogenous, these statistics seem to imply that organizations are not motivated to improve their standing with watchdogs.

Thus, for the moment, it appears that any concerns about the power of watchdog agencies to shape contribution patterns are unwarranted. The findings also suggest that the much-vaunted “efficient social capital market” appears to be at least several years off. Also of note is that the period under study here (1997 through 2000) was an economic heyday when efficiency of nonprofit organizations may have been less of an issue for donors. In these leaner economic times, philanthropists may become more vigilant about their donations and more responsive to the increasing number of watchdog agencies and “top nonprofit” lists. Additional individual incentives to give to “efficient” groups may emerge. Watchdog agencies may successfully incorporate effectiveness measures into their evaluations. Regardless of one’s perspective on these possible changes, ensuring that watchdog agencies appeal to donor interests while educating them on important metrics certainly seems
important. At the same time, they must recognize differences among nonprofits while striving for comparability.

**Note**

1. The two models used to determine the effect on private donations can be described as follows:

\[
\ln\text{Don}(t) = C(0) + B(1)\text{grade}(t - 1) \\
+ B(2)\text{organizational characteristics}(t - 1) \\
+ B(3)\text{year}(t) + u(i) \text{ and} \\
\text{Change Don}(t) = C(0) + B(1)\text{change grade}(t - 1) \\
+ B(2)\text{organizational characteristics}(t - 1) \\
+ B(3)\text{year}(t) + u(i)
\]

where \(\ln\text{Don}\) is the natural logarithm of the dollar amount of contributions (calculated as total contributions minus government contributions); \text{grade} is the numerical grade or rating in the previous period; \text{Change Don} is the change in private contributions; \text{Change grade} is the change in grade in the previous period; \text{organizational characteristics} included (1) subsector, (2) natural logarithm of net assets, (3) sector and \(\ln\) (net assets), or (4) organization; \text{year} is the year of donations; and \(u(i)\) is distributed independently. To facilitate the analysis, AIP evaluations were quantified (A+ = 13, A = 12 . . . F = 0), as were the evaluations given by CRC (“meets all standards” = 1, and “does not meet all standards” = 0).

**References**


MEASUREMENT AND EVALUATION EFFORTS IN FUNDRAISING


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