Reframing Nonprofit Effectiveness

George Mitchell
Transnational NGO Initiative, Moynihan Institute of Global Affairs, Maxwell School of Syracuse University
Outline

• Part I: Transnational NGO Interview Project
• Part II: Watchdog ratings systems
• Part III: Reframing the discussion
Evidence from the Transnational NGO Interview Project

DEFINING NGO EFFECTIVENESS
The Transnational NGO Interview Project

- Face-to-face, in-depth interviews with 152 top leaders (mostly presidents and CEOs) of international nonprofits rated by Charity Navigator
- Topics included governance, goals, strategies, obstacles, transnationalism, effectiveness, accountability, communications, partnerships and collaborations and leadership
- Interviewer: “Let me ask you about the concept of effectiveness, which is something we all have trouble defining. How does your organization define effectiveness?”
Two Main Definitions of Effectiveness

Organizational Effectiveness

- Goal achievement*
- Evaluation
- Resources**
- Stakeholder satisfaction
- Contacts
- Staff or associates
- Expertise*
- Flexibility
- Innovation***

n = 150
***p < 0.01, **p < 0.05, *p < 0.10

- Outcome Accountability (Prob. = 0.76)
- Overhead Minimization (Prob. = 0.24)
Two Definitions of Effectiveness

Outcome accountability

• “Well I mean ah, for us to be effective is to achieve the programmatic or strategic goals that we’ve identified.”
• “We define it as whether or not we are sort of getting the tasks achieved that we set for ourselves.”
• “We set important goals and, and we achieve them.”
• “if we’ve done the work that we’ve said we would do, that’s...that should be one level of effectiveness.”
• “It’s the commitment you make to doing what you said you were going to do.”
• “it’s when you are doing what you’re saying you’re doing, that you’re serving your mission...and that you’re able to show that you’re serving your mission...”

Overhead Minimization

• “to be effective in [DELETED] is to deliver services and assistance to the people of [DELETED] at low cost”
• “The uh, amount of money that’s actually getting to the, to the field dedicated to the programs...and secondarily the actual impact of projects that you can quantify.”
• “…we can’t determine the outcomes, so we measure products. We, we measure outputs. What is sent over you know, what its purpose is, where it goes. We don’t necessarily know how many people it will effect...you can measure success primarily by your outputs.”
• “our best ace card is our efficiency in terms of how we, we have a low overhead”

Goal attainment, promise-keeping, program evaluation

Functional expense ratios, accounting for outputs
Why nonprofit watchdogs are barking up the wrong tree

WATCHDOG RATINGS SYSTEMS
“Watchdogs”

- Charity Navigator (evaluator)
- American Institute of Philanthropy (watchdog)
- Better Business Bureau Wise Giving Alliance (accreditation agency)
Interpretive Ambiguity

• What do stars / grade designations / accreditations mean?
• Ratings encountered with little context
• Designations can be taken to mean whatever donors wish them to mean
Speculative Proxies

• Evidence that watchdog proxies are actually measuring what they are supposed to measure?

• For example, do highly rated organizations actually have more cost-effective programs?
Incorrect Substitution

• Program expense ratio substitutes for efficiency
  – The program expense ratio is a ratio of inputs
  – Efficiency is a ratio of inputs (costs) to outputs (results)
  – Efficiency is using the least expensive method to achieve a specific result

• The key quantity for nonprofit evaluation is the cost per unit of impact
Attribution Error

• Cost to raise one dollar
  – The cost to raise one dollar is the price of donated funds, like how an interest rate is the price of borrowed funds
  – Cost is a price determined by the intersection of donor supply and nonprofit demand

• Donors, not just nonprofits, impact the cost to raise one dollar (e.g. post-9/11)
Implicit Value Judgments

• Years of available assets
  – More is better (financial sustainability)
    • Charity Navigator
  – Less is better (immediate need)
    • AIP
    • BBB

• Benchmark issues/arbitrary discretion
  – What benchmarks are (un)important?
  – Arbitrary benchmark selection (driven by data availability)
  – Arbitrary weighting
  – Ex ante segmentation, ex post exceptions, etc.

• Quantified subjectivity
Binary Accreditation

• All-or-nothing certification
  – Fail: 0/20, 1/20, 2/20, 3/20, 4/20, 5/20, 6/20, 7/20, 8/20, 9/20, 10/20, 11/20, 12/20, 13/20, 14/20, 15/20, 16/20, 17/20, 18/20, 19/20
  – Pass: 20/20

• Accreditation on the margin
Service Organizations Get Better Ratings

Financial Efficiency Rating by Function*

- Advocacy: Low (1 or 2 stars) 56%, High (3 or 4 stars) 44%
- Service: Low (1 or 2 stars) 14%, High (3 or 4 stars) 86%

n = 104, Chi2(1) = 11.15, p = 0.00
*Organizations classified as 'both' excluded for convenience of display
Big Organizations Get Better Ratings

Financial Efficiency Rating by Budget Size

- Small: 66% Low-rated (1 or 2 stars), 34% High-rated (3 or 4 stars)
- Medium: 78% Low-rated, 22% High-rated
- Large: 94% Low-rated, 6% High-rated

n = 152, Chi2(2) = 8.88, p = 0.01
Unintended Consequences

• Perverse incentives
  – Misreporting, implausible 990 data
  – Sacrificing program effectiveness for low overhead

• Failure to promote efficient resource allocation
  – Bigger, service-oriented nonprofits get higher ratings while smaller, advocacy-oriented nonprofits get lower ratings, regardless of organizational effectiveness or efficiency
  – Introduces confusion about what it means for a nonprofit to be effective or efficient
Reframing the discourse about nonprofit effectiveness

REFRAMING THE DISCOURSE
Reframing the Discourse

• Contextualize
  – Watchdog ratings
  – Outcome accountability vs. overhead minimization

• Reframe
  – Promise-keeping
  – Impact-per-dollar
  – Cost-effectiveness (cost per unit of impact)
  – Comparative efficiency

• Respect
  – Donors contribute large amounts of resources with very little credible evidence that their funds are actually having any meaningful impact
  – Donors and the general public deserve better
For Nonprofits

- Know your ratings...are they consistent?
- Ensure your organization is appropriately classified, benefiting from an exception or being held to a more difficult benchmark based on its classification.
- Ask agencies to explain how they calculated your specific rating.
- Advocate for better evaluation and disclosure practices and participate in pilot programs.
- Educate donors and other stakeholders about the importance of assessing outcome accountability and cost-effectiveness.
- Derive and promote measures of promise-keeping, impact-per-dollar and cost-effectiveness to displace watchdog designations and help reorient discussion.
For Watchdogs

• Clearly explain what your ratings mean and how they should be interpreted. Do not report ratings except alongside advisories explaining how to interpret them.
• Prominently feature advisories that visitors should seek out additional specific types of information about nonprofits.
• Allow stakeholders, including nonprofits, to comment on their ratings online clearly and conspicuously.
• Note any discretionary adjustments made to organizations’ ratings alongside the ratings.
• Note how organizations are classified and whether any benchmarks have been adjusted as a result of classification or discretion alongside the ratings.
• Pilot test new ideas and consult with nonprofits about improving ratings systems.
• Determine whether your proxies actually measure what they are supposed to measure.
For Donors

- Learn what particular ratings actually measure and interpret them very cautiously.
- Identify organizations that match your values and priorities before consulting agency ratings.
- Do not use watchdog websites as search engines or to shortlist or rule out nonprofits.
- Learn what organizations are trying to specifically accomplish and demand evidence that they are making meaningful progress cost-effectively.
- Help nonprofits acquire resources to fund evaluations.
- Let nonprofits experiment to learn what works.
- After you have identified an organization to support, learn about its specific financial needs. For some organizations, funding overhead may improve organizational effectiveness more than program spending, even though it may feel counter-intuitive.
Conclusion

• Fundamental need to generate better data...

• Current trends toward transparency measures...

• Email: gemitche@maxwell.syr.edu

• The TNGO Initiative website:  
  http://www.maxwell.syr.edu/moynihan_tngo.aspx