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Over \$1 Trillion to 1 Percent of Charities: How Do We Measure the Results?

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The U.S. has the largest nonprofit sector in the history of the world. It is estimated to contain over [1.1 million public charities](#), which account for somewhere around [\\$1.5 trillion per year in revenues](#); and the nonprofit sector as a whole employs over [one out of every 10 workers in this country](#). Therefore, with massive government budget deficits, tax increases on top earners, along with payroll taxes hitting millions of workers, America is at a critical juncture and needs to know that charitable revenues are being used as effectively as possible. Even more amazing is a fact most of the general public does not realize -- roughly 1 percent of the charities in the USA (perhaps 15,000 organizations) garner over 85 percent of that \$1.5 trillion that comes into the sector each year.*

While we feel better for our efforts, the truth is that we can't actually measure the social impact that most of these expenditures lead to because the vast majority of charities (those nonprofits that have 501 (c) 3 status, and provide you with a tax deduction for your donation) do not publicly report meaningful information on the results of their work. Any private investment of this magnitude would demand a measurable indicator of the result, what about measures of the results for the non-profit sector to create social value (meaningful change in communities and peoples' lives)? Indeed, a substantial number do not have anything to report at all, even privately, because even they do not know whether they are truly effective. As a consequence, both philanthropists and average donors are often forced to use proxies to make their social investing/charitable giving decisions. These proxies typically include financial metrics and other indicators of best practices. Although we believe strongly that financial management and best practices are important and should be considered carefully in making an informed decision about which nonprofits to support, it is clearly not the same as knowing directly about whether the charity is meeting its mission and truly helping people with its programs.

This state of affairs is completely unacceptable. In a day and age when we can access data on virtually anything in nanoseconds, it is long past time for charities to get serious about reporting on the results of their work. Thankfully, there are some bright stars that are showing the way through the fog that covers the sector. Groups such as the Harlem Children's Zone, headquartered in NYC, ROCA in Boston, and Nurse Family Partnership in Denver have built

state of the art systems to manage toward and measure their results. As a consequence, they have adapted over time, as they learn ways to become more efficient and effective. They are proving that many more people and communities can be helped in a much more significant and measurable way than many of their fellow service providers have been able to accomplish.

Not surprisingly, there is a chorus of opponents that offer a host of arguments for why managing, measuring, and reporting on results cannot and should not be done. They say it is too expensive to do so; they claim that they are unique and their services are not measurable; they claim that being held accountable is too much of a burden for both the nonprofits and those they exist to serve... and on and on go the excuses. There is a kernel of truth to some of these arguments; but there is also a hidden reality that most Americans do not realize that cloaks the situation: Almost half of all charities in the U.S. have \$25,000 or less in annual revenues (and garner less than 1 percent of the revenues that come into the sector each year).** Obviously we are not anticipating a robust performance management and measurement system from these groups! Rather, we are talking about the charities at the other end of the spectrum -- that 1 percent we mentioned earlier. It is simply disingenuous for these larger charities to hide behind the excuse that it is too expensive to know whether or not they are having a meaningful impact. Furthermore, even if they cannot find measures to track all the services they provide, surely they can start somewhere.

As a long time nonprofit evaluator and colleague of ours often says, "If you do not manage your performance, you cannot measure it, and if you cannot measure it, how can you be accountable"? We believe that it is high time that the larger charities, in particular that 1 percent at the top tier of funding, become accountable for all the resources they collect and the efforts they claim those resources support.

Another challenge facing donors of all types is to be found in the claims of those charities that say they are managing and measuring toward results when, in fact, they are not. Rather, they use the jargon of the outcomes field to suggest that they are effective; but actually provide little if any real evidence to support the claim. For example, an employment program might tell you that over 1,000 people graduated from their employment program last year. Unfortunately, that is merely a measure of activity, and speaks not at all to effectiveness. A much more meaningful result could be determined by learning how many people secured jobs as a result of the training... and kept them for a period of time after they graduated from the employment program. Sadly, as calls increase for charities to report on the results of their work to get funded, we also see an increasing amount of false claims of such results. Our collective challenge is to break the long-standing reality in which "the charity that does the best marketing wins" and replace it with "the charity that provides reliable evidence of the most meaningful and lasting change in people's lives wins".

Indeed, we believe the country is currently witnessing a battle for the very soul of the nonprofit sector. The final outcome of this battle will be determined by the amazingly generous American public which donates two to three times more than any other country in the world. With a growing amount of information available, the donating public (we hope), will soon realize that the vast majority of nonprofits seeking their support cannot provide evidence that they are providing meaningful and lasting change that helps people and communities. When this realization becomes common knowledge, our society will truly be at a crossroads. The end result

will be that either charities provide meaningful, reliable evidence of their performance, or their donors will abandon them in disgust and frustration.

We often hear from angry donors who, upon repeatedly reading headlines about charity scams and scandals, become even more cynical and skeptical when they learn of the lack of evidence of charity effectiveness. They understandably wonder whether *any* charity is doing *any* good. For the nonprofit sector, this is a disastrous conclusion for donors to be arriving at. There *are* great charities out there doing amazing work; the public simply needs to get the relevant information to find them. But donors also need to remember that giving should not just come from the heart (although it is a great place to start); but also from the head (the place where you can confirm through research that the charity meets the heartfelt impulse). Even a little research can go a long way in finding the high performing charities out there.

Charity Navigator has been and intends to continue to help donors in their research to find those great charities as quickly and easily as possible. As more donors focus on giving to the best charities based on research, more and more charities are striving to become high performers. We know this because within the first year and a half after we launched a revised rating system in 2011 (which we called CN 2.0), roughly 50 percent of the charities we evaluate have made changes to their governance and other practices to assure they met our new standards. [This year we launched CN 3.0](#) which begins to evaluate the quality of how charities report the results of their work. This is the central question that must be answered so that we, the donating public, get the best return on our "social investment" and so that those people who need to be helped, get the best services possible. If we win this "[battle](#)" for the soul of the nonprofit sector, many more people will be helped and the world will be a much better place. That's the outcome that really counts!

* The Urban Institute estimates that of the approximately 1.1 million public charities (i.e. 501(c)3 organizations that file with the IRS), only 366,000 report data to the IRS each year. Of those 366,000, 4 percent expend (and also receive revenue) 86 percent of the \$1.5 trillion each year. The remaining roughly 800,000 public charities get such a minimal amount of funds it does not even enter into the calculation. Therefore 1 percent of the 1.1 million public charities are garnering roughly 86 percent of revenues/expenses.

** The Urban Institute report on the Nonprofit Sector (<http://www.urban.org/UploadedPDF/412674-The-Nonprofit-Sector-in-Brief.pdf>) notes that one-half of one percent of expenses (and also revenues) of the 366,000 public charities that report to the IRS are 100,000 or less. In the full report they indicate that roughly half of nonprofits are less than \$25,000 in annual revenues. The amount is therefore, significantly less than 1 percent of revenues and expenses for this group.

This post was co-authored by Dr. Robert Penna (author of the Nonprofit Outcomes Toolbox).

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