



Let's Face It, Nonprofits Are Hard To Evaluate

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Executive Summary

Let's face it, nonprofits are hard to evaluate. Generally, the true measure of success for any nonprofit is related to its programs, but this information is hard to obtain, analyze, and communicate. The services provided by a nonprofit aren't always the sole influence on the outcome, making it difficult to determine the results.

"In June 2013, presidents of three well known nonprofit organizations – the BBB Wise Giving Alliance, GuideStar, and Charity Navigator, whose missions include evaluating charities and making their evaluations available as guidance to donors – issued a joint letter titled, 'The Overhead Myth'. The letter urged donors and the public to place less reliance on expense ratios when making giving decisions. They correctly point out that *how money* is spent is often not a very reliable indicator of a nonprofit's outcomes. In fact, they suggest that many nonprofits should probably be spending *more* on overhead to improve the quality of management, strengthen internal control, gain operating efficiency, provide for long-term stability, and the like."¹ The letter closes by stating, "The people and communities served by charities don't need low overhead, they need high performance."

How do we qualify and quantify high performance? Ken Berger, president and CEO of Charity Navigator, affirms, "We believe that for a donor to correctly assess a charity, the organization must be viewed on three dimensions: its financial health (not just its overhead), its governance practices, and the results of its work."²

We struggle to find definitive guidelines by which funders, the public, and nonprofits themselves can determine the effectiveness of a nonprofit organization. Most annual reports still graph and highlight the minimal administrative and overhead costs utilized to meet their goals. How do they expect funders to change the way success is being identified if they have not yet made the attempt to focus on results?

¹ Larkin, Richard. *Using Outcomes to Measure Nonprofit Success*. (July 2, 2013). Nonprofit Quarterly. <http://www.nonprofitquarterly.org/management/22549-using-outcomes-to-measure-nonprofit-success/>.

² BBB Wise Giving Alliance, Charity Navigator, and GuideStar Join Forces to Dispel the Charity "Overhead Myth": Chief Executives of Three Leading Nonprofit Information Providers Publish Letter Condemning Administrative Expenses as Measure of Performance. (June 17, 2013). Central Georgia Better Business Bureau. <http://centralgeorgia.bbb.org/wga-news-releases/>.



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In this call to action, the three organizations urged donors and the public to place less reliance on expense ratios when making giving decisions. They correctly point out that *how money* is spent is often not a very reliable indicator of the outcomes achieved by the nonprofit. In fact, they suggested that many nonprofits should probably be spending *more* on overhead to improve the quality of management, strengthen internal control, gain operating efficiency, provide for long-term stability, and the like.”³ They close their letter stating, “The people and communities served by charities don’t need low overhead, they need high performance.”

How do we qualify and quantify high performance? Ken Berger, president and CEO of Charity Navigator, affirms, “We believe that for a donor to correctly assess a charity, the organization must be viewed on three dimensions: its financial health (not just its overhead), its governance practices, and the results of its work.”⁴

As we approach the one year anniversary of this letter we struggle to find definitive guidelines by which funders, the public, and nonprofits themselves can determine the effectiveness of a nonprofit organization. One would hope that the Overhead Myth campaign would inspire nonprofits to focus on results, not ratios, and yet most annual reports still graph and highlight the minimal administrative and overhead costs utilized to meet their goals. How do they expect funders to change the way success is being identified if they have not yet made the attempt to focus on results?

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Focusing on Results – How do you measure performance?

How can we build our nonprofits' capacity to highlight their valued performance? Before we tackle this question in the nonprofit sector, let's jump into the for-profit world and assess their approach. Success in the business world is generally measured by the amount of profit identified in a business' financial reports. Of course, that isn't the only determining factor for success. A for-profit business is also evaluated on the quality of its products/services, its environmental footprint, the ethics and leadership of top officials, and the work environment and treatment of its employees. These aspects generally enhance or diminish profits, but the main focus of measurement is always on profit – the development of the bottom line.

That being said, it's understandable that the success of nonprofit organizations originally focused on financial results. But organizations (both nonprofit and for-profit) that build robust infrastructure – which includes sturdy information technology systems, financial systems, skills training, revenue generation, and other essential overhead – are more likely to succeed than those who do not.⁵ And folks, this is often quite expensive. Thus, as supporters of the Overhead Myth have pointed out, a shift to outcomes better defines a nonprofit organization's success.

Additionally, it's important to note that although for-profit success is assessed by profits, these financial results are a direct correlation of the product/services sold by the company. Therefore, indirectly, for-profit businesses are evaluated on the results of the products and services they provide. So why aren't we doing a better job analyzing results for nonprofits?

Inputs vs Outputs vs Outcomes – What should be used?

Inputs, outputs, and outcomes encompass data types by which nonprofit success can be measured. "Inputs describe how much in the way of resources (both financial and non-financial, such as volunteer time, materials, equipment, etc.) was used to conduct an activity."⁶ This information is traditionally found in financial statements and generally reported similarly by nonprofit agencies.

Merriam-Webster defines output as "something produced," thus measuring the amount of activities conducted by the organization.⁷ This could include the number of housing counseling classes provided, or the foreclosure prevention applications completed, but the problem with this type of data is while it identifies the quantity of the services provided, it does not readily indicate whether those services resulted in benefits. Did the students of the housing counseling class learn anything? Of the applications completed, how many foreclosures were prevented? Funders aren't satisfied with an update sharing that their funding was utilized to host four classes throughout the community. How are the results captured?

We utilize outcomes to determine if the participants, or the society as a whole, are better off after receiving services from the nonprofit. Did the city or county see a decrease in foreclosures after the nonprofit provided counseling services throughout the community? But outcome measures, by design, are imperfect. A nonprofit could have provided engaging information and prevented more foreclosures than it ever had, but circumstances out of its control – a national recession, or a large manufacturer relocating out of the country, etc. – may substantially increase the need for services. While that

⁵ Gregory, Ann Goggins and Don Howard. *The Nonprofit Starvation Cycle*. (Fall 2009). Stanford Social Innovation Review. http://www.ssireview.org/articles/entry/the_nonprofit_starvation_cycle/.

⁶ Larkin, Richard. *Using Outcomes to Measure Nonprofit Success*. (July 2, 2013). Nonprofit Quarterly. <http://www.nonprofitquarterly.org/management/22549-using-outcomes-to-measure-nonprofit-success/>.

⁷ "output". *Merriam-Webster.com*. Merriam-Webster, 2014. April 21, 2014. <http://www.merriam-webster.com/dictionary/output?show=0&t=1398096622>.

nonprofit may have seen positive results in its outcomes, the community may have experienced its largest foreclosure rate to date.

Let's face it, nonprofits are hard to evaluate. Generally, the true measure of success for nonprofits is related to its programs, but this information is hard to obtain, analyze and communicate. The services provided by a nonprofit aren't always the sole influence on the outcome, making it difficult to determine the results. Output data collected only provides a snapshot of work that has been completed and does not readily indicate whether those services resulted in benefits. Richard Larkin, Technical Director for Nonprofit Accounting at BDO USA, LLP, jests, "Think about how a church might measure its own success. Souls saved per pew – per hour preached? And where would *those* data points come from?"⁸ Jokes aside, nonprofits are one of many contributors working together to meet the needs of our community. Why are we looking only to them for positive results to the problems they treat? These issues touch our society as a whole. Will a true assessment of how to evaluate a nonprofit's success strengthen the collaboration between the nonprofit, for-profit, and governmental sectors and finally bring valued results to our community?

WFN's Nonprofit Consulting Practice

For over 30 years, WFN Consulting has organized and worked with community partners to solve complex community development challenges. WFN's team has created and fostered new nonprofits, worked to develop collaborative organizations, and managed continuums of care. For the nonprofit sector, we offer expertise in capacity building, board formation, grant writing, grant reporting and compliance, and mergers between organizations. Whatever the needs of the nonprofit sector in your community, WFN Consulting can help. Let us show you how.

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⁸ Larkin, Richard. *Using Outcomes to Measure Nonprofit Success*. (July 2, 2013). Nonprofit Quarterly. <http://www.nonprofitquarterly.org/management/22549-using-outcomes-to-measure-nonprofit-success/>.