

The Battle for the Soul of the Nonprofit Sector

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Although many in the nonprofit sector have been unaware of it, skirmishes in the battle for the soul of the nonprofit sector have been taking place over the last few decades. While most of us kept our heads down, doing what we think is “good work” and donating, volunteering, organizing or advocating, the sector’s “thought leaders” have been thrashing it out over the two most important questions ever to face the sector: how to define the value of all the work we are doing, and how to measure that value.

Had the economic realities of both our sector and the nation’s larger economy not changed, it is probable that this battle would continue to have raged all but unnoticed. However, as money has gotten tighter and public skepticism has increased, the battle has not only begun to heat up, but has commanded an entirely new profile and prominence that no one in the sector can either dismiss or ignore. An important flashpoint in this clash of ideologies, approaches and value systems has been Charity Navigator’s announcement that it would begin rating charities’ effectiveness as well as their fiscal soundness and accountability.

Recently termed the “most visible” of the nation’s charity rating services (Cohen 2010), with more individual donors using our site than any other in the world, Charity Navigator (CN) has been at the forefront of making judgments regarding the performance of charities. However, critics have correctly observed that CN’s fiscal rating system is one-dimensional and does not tell the whole story of a charity’s value, and therefore can cast in a negative light some nonprofits that are, in fact, doing effective work.

While CN has taken these criticisms to heart, we also believe that a larger issue is at stake—how to identify high-performing nonprofits and how to better direct donors’ contributions to them.

CN is certainly not alone in this quest. Some of our fellow travelers (e.g., Hunter 2009) have charged that for all its \$1.5+ trillion a year in revenues, the nonprofit sector has little credible evidence that most of its organizations actually produce any social value at all.

Thus the battle is shaping up, with several commentators (Hauser Center 2010b) on the one hand lauding CN’s efforts and intentions and the larger effort to hold charities accountable, while others decry the entire enterprise variously as a sideshow of “arm chair activists, pointing fingers and pontificating from the sidelines” (Gottlieb 2009), “unachievable” or “contributing to a public addiction to simplicity” (Hauser Center 2010a).

Strong words on both sides; but where does the truth lie?

We have three observations.

The first is that much of the effort aimed at addressing social problems over the last few decades has not been thoughtfully designed to produce "results." Rather, these efforts have been largely activity-driven, applying promising ideas to social problems without the necessary follow-up and confirmation. As Len Bickman wrote in 1987, "All too commonly, programs seem to grow from notions and ideas," rather than from a sound, testable theory. In fact, he added, "many programs [completely] lack an explicit theory; or the theory they espouse [is] implausible" (Bickman 1987, 6). To put it bluntly, many nonprofit organizations are engaged in the social equivalent of alchemy: substituting wishful thinking for demonstrated impact. The good news is that we now have practicable, affordable and useful methods for evaluating program effectiveness, and many funders are beginning to recognize the value in supporting such efforts as a way of "scaling what works."

Second, for much of its history, the sector has not been "investing in change," but rather relying upon a notion of "making services available" as a way to stop harmful behaviors and alter negative situations and conditions. Our colleague Dr. David Hunter observed in this journal (Hunter 2009) that "nonprofits do what their funders tell them to do." This is inarguably true, and if one wishes to

trace the course of the sector's mistakes, there is no more important place to focus than the one particular funder: government. Governments that underwrite social investment—and *particularly* the elected officials who approve the budgets from which our sector draws so much grant and program funding (\$450 billion at last count)—are primarily interested in three things:

1. Appearing to their constituents to be doing something about the social problems that bedevil our society;
2. Equitable distribution among issues and the organizations that exist to address them; and
3. Keeping with the letter of the law.

Thus, most social service nonprofits and their public sector funders, being both activity-driven and activity-oriented, focus on the "how many?" question: How many meals were cooked and served in the soup kitchen, to how many people? How many middle schoolers attended the after-school program? And so on. The advent of categorical funding, welcomed with open arms by a sector always desperate for any cash from virtually any source, inexorably led to a focus on head counting. These funding streams were designed by law simply to provide X services to Y population. Therefore, documentation was produced to show that, in fact, the money *was* spent as agreed. This shifted the entire focus of the sector away from concerns about effectiveness and toward increased service units and "compliance." To their shame, many

non-governmental funders followed this pattern and also have primarily focused on “how much?” (a measure of activity and nothing more) and their own version of compliance (were the funds used for the categorical purposes for which they were intended?). This is a dead-end road we never should have taken and from which the sector absolutely must escape.

Yet at the same time, we worry that performance measurement may become just another meaningless compliance issue, a condition for grant payment. Instead, it should be recognized as vital if we truly wish to know which programs and which delivery models work best—so we can continue to support them, replicate them, and make them available to as many people as possible. A single solution for all of the problems our sector works on does not exist. But there *are* some that are effective. Similarly, there are some that are not. Our challenge is to increase support for the former, and to decrease the resources being wasted on the latter. The only way to do that is to implement meaningful evaluation systems throughout the sector.

Growing out of this belief is our third point, which has to do with CN’s intention to move forward with its announced three-dimensional assessment system, the third leg of which will eventually report upon the outcomes reported by the charities we rate.

While everyone recognizes that donors give for a variety

of (often emotional) reasons, they nonetheless very often seek and appreciate guidance. Within virtually any field of nonprofit endeavor, there are usually a number of organizations at work. We have no doubt that many donors want to know which is the preferable investment and is likely to provide most impact.

There are only two ways to answer this question. The first is for charities to be held accountable for the claims they make regarding the changes they are bringing about. Performance measurement, whether critics like it or not, is absolutely necessary. The second critical element is for the information regarding performance to be made not only "available" but readily accessible to the public. This is the task CN has set for itself.

We believe that a charity ought to be able to answer three basic questions:

1. Is it using targeted results in the design, management and measurement of its efforts?
2. Are those targets that it sets "reasonable"? Are they meaningful, sustainable and verifiable?
3. Is the organization achieving those results; and how does it document those gains?

These are the questions CN will be posing and reporting on. We recognize that it is a substantial undertaking we have set for ourselves. We recognize that any system initially devised will require continuous improvement as we

go. But we are also firm in our belief of four things:

1. That charitable donations should not be merely "giving," but rather social investments.
2. That an informed donor is the best social investor.
3. That effective organizations represent the wisest and most efficacious social investments.
4. That we owe it to our constituents to provide the best information we possibly can to help guide their social investment decisions.

In fact, we hope that charities that provide this kind of information to donors will find it easier to attract funding than charities that don't. We think this is what many donors are and will be looking for, and nonprofits that respond appropriately will have an advantage over those that don't.

In the end, this battle for the soul of the sector centers on whether charities will move away from their traditional problem mentality (how big the problem is that needs to be addressed) and away from their traditional activity response (how hard we're working; how hard we tried) in their appeals for support. Most agencies have yet to seriously wake up and get on track toward the implementation of agency-wide performance management systems. Many funders, governmental and philanthropic, give only lip service to effectiveness and performance measurements, denying the charities they support the resources they need to truly understand,

adopt and implement such measurement.

The chorus of apologists for the status quo feed into all of this as they cling to romantic notions of “the work,” paternalistic images of those they serve, and/or a dogged determination not to change because they know they will do badly. Other apologists claim that measurement is too expensive, complicated and/or cannot possibly capture the breadth and depth of their efforts. As a result, they go on to argue that we and others working for change will fail. We do not doubt the sincerity of most of these critics; however, we find all of their arguments hollow in the end. Between the three of us, we have spent many decades both in the trenches doing “the work” and studying and implementing outcomes tools. Based on all of that experience and our observation of the current state of the field, we know that the types of measurement and accountability we are calling for is finally at hand.

We are heartened by the efforts of many of the sector’s leading thinkers and a number of far-sighted institutional donors who are working to begin the changes necessary for the future of our sector. We are also gratified by those who wish us well in the undertaking we have outlined. We are engaged in this effort to measure effectiveness and results because we believe it is critical that we use our resources as wisely as possible to solve social problems. The nonprofit sector is unique in its ability to address many of the problems (social business, such as the Grameen Bank, aside) and issues that face people and

communities across the country and across the globe. Our sector alone, unencumbered by either shareholders' interests or a changeable (and often fickle) electorate, can muster the expertise, the compassion and the sheer will to do the work others sometimes think thankless at best and pointless at worst.

So the battle over the future course of our sector—for its very soul—is being waged. The question we must answer is whether we measure, manage and deliver true, verifiable and meaningful results, or simply continue “the work” with no reliable idea of where our efforts are leading and whether they are truly helping.

We know which side we come down on in this contest: the side of improved performance, enhanced effectiveness, and the *proof* to substantiate both claims. It is the side, we believe, of the angels, and we are determined to do our part to see that that this side prevails.

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