

The Worst (and Best) Way to Pick A Charity This Year

Experts explain that overhead ratios and executive salaries are a red herring

Sites that help donors choose *effective* charities

December 1, 2009--This giving season needs are greater and donations are falling—it's more important than ever for donors and charities alike to make sure that every dollar goes farther. For years, people have turned to the overhead ratio—a measure of how much of each donation is spent on “programs” versus administrative and fundraising costs—to guide their choice of charity. But overhead ratios and executive salaries are useless for evaluating a nonprofit's impact.

Now there is an alternative. In the last few years several organizations have emerged to provide donors useful—and free—information to help them choose charities that are actually good at what they do.

While the idea of sending money “straight to the beneficiaries” is tempting, nonprofit experts agree that judging charities by how much of their money goes to “programs” is counterproductive. “Achieving a low overhead ratio drives many charities to behaviors that make them less effective and means more, not less, wasted dollars,” says Paul Brest, President of the Hewlett Foundation, and co-author of *Money Well Spent*.

Experts cite many reasons that focusing on an overhead ratio is the worst way to choose a charity:

- It tells you nothing about the impact the charity has on people it's trying to help
- It discourages charities from investing in tools and expertise that would make them more effective
- The rules for determining overhead costs are vague and every charity interprets them differently
- Accounting experts estimate that 75% of charities calculate their overhead ratio incorrectly

Bob Ottenhoff, president and CEO of Guidestar (www.guidestar.org), notes, “Ratios can be extremely misleading. GuideStar has spent more than a decade educating the public about the dangers of judging an organization solely on its financial balance sheet. Our focus has always been on helping donors get a complete picture of a charity.” GuideStar was founded in 1994 and was the first web site to make financial and programmatic data on nonprofits easily available to the public.

Ken Berger, President and CEO of Charity Navigator (www.CharityNavigator.org), a resource that more than 3 million users turn to each year to learn about charities, agrees that donors need to consider more than just financial ratios when choosing charities. “There is a place for financial measures, but donors need a complete picture of a charity to make a smart choice. We believe that too many donors are paying too much attention to measures like overhead.”

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So what's the alternative? Evaluate charities based on their effectiveness. Berger notes that Charity Navigator will be launching new rankings in the next year: "Charity Navigator is revamping our ratings to increase the emphasis on effectiveness and transparency to help donors make better decisions." That's the same goal as Great Nonprofits, Philanthropedia, and GiveWell—organizations that were founded in the last 3 years to help individual donors find the best charities. Each provides information that hasn't been available to donors until now: Great Nonprofits provides "user reviews" similar to those on shopping sites, Philanthropedia shares hundreds of expert perspectives on charities, and GiveWell conducts in-depth analysis to identify charities with direct evidence of impact.

"So many donors and volunteers want to know if their giving is going to make a difference. Now there are new tools for them to see which nonprofits are most deserving of their support," says Great Nonprofits founder Perla Ni. GreatNonprofits (www.GreatNonprofits.org) features more than 17,000 reviews of nonprofits of all sizes, ranging from small grassroots nonprofits to large national organizations. The reviews and ratings are posted by people who have had a direct experience with a nonprofit - a client who has received services, a volunteer, a donor, or board member. GreatNonprofits reviews also appear on Guidestar along with information charities provide about their mission and social impact. Users can choose a charity based on these reviews just like they use reviews of popular products on sites like Amazon and Yelp.

Philanthropedia (www.MyPhilanthropedia.org) provides everyone access to privileged, expert information from hundreds of nonprofit professionals. When these experts agree that a nonprofit is a top performer, there's good reason to support them. "When you think about making your donations, use your heart to pick the causes you care about and your mind to pick the charities you support," advises Philanthropedia co-founder Howard Bornstein. Philanthropedia also makes giving to top performing nonprofits easier through its online giving portal. Users can donate through Giving Mutual Funds to support entire social causes based on expert allocations or chose to support individual top performing charities.

GiveWell (www.GiveWell.net) examines hundreds of charities to identify the ones that can provide powerful, direct evidence that they're changing lives. GiveWell co-founder Holden Karnofsky notes, "In charity, as in anything else, good intentions are not enough. Many programs just don't work—even when charities carry them out exactly as they're supposed to. Donors need to ask more than how charities are spending their money - they need to ask whether they're improving the lives of the people they serve." GiveWell publishes in-depth reports on top charities, as well as overviews of the issues that charities address (such as global health, microfinance, clean water, and education) and reviews of academic research on the best approaches to those issues.

Ken Berger notes, "We're tremendously excited about the role that Charity Navigator, GiveWell, Great Nonprofits, Guidestar and Philanthropedia can play in helping more dollars move to the charities that use it best."

Summarizes Ottenhoff, "It's understandable why people have looked at overhead ratios and executive salaries—they want to make sure their donation does the most good. The best way to do that isn't a financial ratio, it's information on how effective charities are."

Now that information is increasingly available.

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