Accreditation vs. Watchdog

By Ken Behr

Part of the prayerful hope in the founding of ECFA was to help good Evangelical charities become great Evangelical charities. Now in its 27th year, the ECFA is comprised of over 1,200 accredited evangelical Christian organizations. The mission statement emphasizes the development and maintenance of standards of accountability and ethical practices.

Recently, a few self-described charity watchdog groups have been gaining popularity, particularly in the press, primarily because of their willingness to rate charities typically based on financial calculations and publish (as well as release to the media) the results. Many also rate the charities on a letter scale (*i.e.*, A to F) or via two, three or four stars, like movies and hotels.

ECFA is not a watchdog group but an accreditation agency and many people likely are unaware of the difference. The ECFA model is an accreditation model which provides a seal of approval to the organization that has met the requirements of accreditation, primarily compliance with the Seven Standards of Responsible Stewardship. These standards include an evangelical statement of faith, an independent board of directors, audited financial statements, conforming use of resources, transparency in their finances, avoidance of conflicts of interest and truthfulness in fund-raising.

Compliance with the Standards is monitored by ECFA in three ways. First, all ECFA members must annually submit membership review information including audited financial statements, IRS Form 990 (if applicable), salary information, fund-raising appeals, board composition, changes in organizing documents, and much more to verify compliance with the Standards. Second, ECFA conducts on-site field reviews at over 12% of its membership each year. These field reviews verify the information submitted in the annual membership review, confirm compliance with the ECFA Standards, and give support to the member organizations. Third, ECFA responds to complaints against member organizations. All such complaints are investigated thoroughly in order to determine possible noncompliance with the Standards.

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Typically charity watchdog groups rate charities based primarily, if not solely, on a mathematical analysis of functional expenses and balance sheet data. The ability to retrieve financial information submitted to the government by charities via the web has provided the data access for the charity watchdog groups to evaluate charities based on the financial information provided to the government annually on Form 990.

The methodology embraced by the watchdog groups as well as their commentary related to their analyses equates the efficiency of the charity (*i.e.*, how much of their expenses goes to fund-raising and general and administrative costs) with the effectiveness of the organization.

In their words, *because an organization has a low overhead, they are therefore an organization that is worthy of your consideration.*

While these watchdog groups may be well-meaning, they are somewhat misguided. Most people that are intimately involved in charitable, philanthropic causes know that a rush to judgment of the integrity and effectiveness of a charity based on simple financial calculations is inappropriate.

Because there are many different charity watchdogs, the same charity may receive a “plus” for certain financial results from one watchdog group while another watchdog would give the same charity a “minus” for the same financial results. Some watchdog groups, for example, approve and give higher scores to charities that have cash reserves (*e.g.*, higher is better) with the idea that the cash reserves provide stability. Other watchdog groups give the lowest scores to charities that have high cash reserves (*e.g.*, lower is better).

While none of the watchdog groups state that charity evaluation is a simple exercise, it can be troubling to charity leaders as well as donors to think that someone or some group is equating charity efficiency (very little spent on fund-raising and administration) with charity effectiveness. If this "efficiency equals effectiveness" premise were true, *FEMA's decision to use $2,000 debit cards to victims of Hurricane Katrina would have been applauded by the general public and national media, while in reality it was scoffed at as another example of a government fiasco and incompetence.*

Perhaps this connection between efficiency and effectiveness in rating charities is best articulated by Jim Collins, author of *"Good to Great"* and recently the monograph to accompany his book entitled, *"Good to Great and the Social Sector."* In the very beginning of the book, Jim Collins discusses this confusion between financial *inputs* and charitable outcomes or *outputs*:

> **"I recently opened the pages of a business magazine that rated charities based in part on the percentage of budget spent on management, overhead and fund-raising. It's a well-intentioned idea, but reflects profound confusion between inputs and outputs." Think about it this way: if you rank collegiate athletic departments based on coaching salaries, you'd find that Stanford University has a higher coaching cost structure as a percentage of total expenses than some other Division I schools. Should we therefore rank Stanford as "less great?" Following the logic of the business magazine, that's what we might conclude—and our conclusion would be absurd. Stanford won the National Association of Collegiate Directors of Athletics Cup for best overall performance for 10 consecutive years, beating out all other major schools, while delivering athlete graduation rates above 80%."**
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> **"The confusion between inputs and outputs stems from one of the primary differences between the business and the social sectors. In business, money is both an input (a resource for achieving greatness) *and* an output (a measure of greatness). In the social sectors, money is *only* an input, and not a measure of greatness."**

Jim Collins book is a great read for everyone involved in charitable work. It is highly recommended to further understand the complexity involved in becoming not just a good charity but a great one. Another interesting read would be "Why ECFA does not rate charities" also found on the ECFA website at www.ecfa.org.

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