

Peter Gibson Memorial Fund

Report of study: Publicly Available Information on the Effectiveness of Third Sector Organisations

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This report follows the guidance from PGMF about the format and content for study trip report. It is structured as follows: -

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1. EXECUTIVE SUMMARY

The **focus** of this study is the information on the effectiveness of third sector organisations (TSOs) - including charities, voluntary organisations and non-profits - which is publicly available to guide citizens in their decisions to provide support, including philanthropic donations – regardless of the actual use made of such data. Such information is of course also valuable for the same purpose for others, such as grant-making bodies and foundations, and policy-makers.

'**Effectiveness**' is the extent to which a third sector body actually accomplishes the goals it has previously set for itself.

The main focus of the **fieldwork** was on experiences in the United States, but the study also considered the position in Scotland, and to a lesser extent elsewhere in the UK.

The study is based on two **hypotheses**. First, effectiveness is very important – indeed it is difficult to conceive of an issue relating to TSOs which is more important than a TSO's effectiveness. Second, the study was focused on checking the likelihood that practices in the US differ from those in the UK/Scotland, in ways which may be of interest to the future development of thinking about effectiveness in the third sector in Scotland.

The **aim** of the study was to see what conclusions might be drawn for Scotland and its citizens. While it is tricky to draw such conclusions because of the striking differences between the US and UK/Scotland, nevertheless there are some conclusions which can be drawn.

The main **conclusions** from the study - are that

- 1) There are important similarities, but also important differences, between the US and Scotland relating to the TSO sector.
- 2) However, there are great differences relating to what information on TSO effectiveness is publicly available in each country – which reflects greater US interest in, and more developed practices relating to, making such information available – in particular to inform donor decision-making.
- 3) Nevertheless, there can be little doubt that such information, if available, could serve important needs in Scotland – and that these needs might be expected not to be identical to those in the US.
- 4) A set of five factors - conceptual, technical, policy-related, market-related, and TSO practice - appear to be the root cause of many of the obstacles to better public availability of effectiveness information.
- 5) There are opportunities to address some of these factors - in particular those relating to TSO practice - which may have benefits for citizens, donors, TSOs themselves, and indeed others with an interest in TSO effectiveness.

2. BACKGROUND TO THE RESEARCH

2.1 The key issues or concerns that prompted my study trip

I have a long-standing professional interest in how organisations providing public services¹ assess their own effectiveness. Similarly, I'm interested in the different but related matter of the information which is publicly available to others who are outwith those organisations to allow them assess such organisations' effectiveness.

These two issues have arguably been at the centre of debates about the role of public sector bodies in Scotland, the UK and most of the West, since the 1980s. They are also increasingly discussed in relation to third sector bodies also - including in Scotland, as the research confirms.

At the same time, there are at least two major differences between third sector organisations (TSOs)² and public sector bodies. As non-statutory agencies, the former are free to set their own goals, and they face different scrutiny in relation to their effectiveness in achieving those goals. These and other factors perhaps explain the

¹ i.e. services which are at least partly publicly funded

² In this report, I use the neutral term 'third sector organisation' to cover both charities and 'nonprofits' in the US and also charities and other relevant voluntary organisations in Scotland. Generally, the main focus of this report is on issues relating to *data on effectiveness* in TSOs - not on legal or other organisational forms, or tax status. 'Third sector organisation' is the term used in Osborne et al 2012, in their longitudinal study for the Scottish Government.

differences between the public and third sectors, in relation to the availability of information on the effectiveness of bodies in each sector.

2.2 Background and interests relevant to the study trip

I first became involved in these issues professionally in the 1990s as a member of staff of the former Accounts Commission (now Audit Scotland), the public sector regulatory and scrutiny body. I continued my interest as Professor of Public Policy & Management at the Robert Gordon University, Aberdeen. More recently, I've worked as an adviser in the field of public policy and management, supporting organisations to identify the goals they have set themselves - and to report on achievement of them, internally and externally. I've done so in central government, local government, health bodies, criminal justice bodies, a range of national and local quangos – and also many third sector bodies. I have also worked in the third sector in Scotland.

2.3 The considerations/ reasoning behind selection of country for the study trip

The third sector in the US is possibly the largest in the world, and it is extremely varied. At the same time, there are further features which make it an interesting comparator country for Scotland, including the greater significance of philanthropy in resourcing charities and non-profits, and in particular – the focus of this research – the different practices, and different types of bodies, involved in placing information on the effectiveness of those bodies in the public domain.

Finally, at the time of the study, I was resident in the US and had already made some initial investigation of these issues. That in turn led to me to consider making US/Scotland comparisons and contrasts, using my 'local' knowledge of each territory, even before approaching the Peter Gibson Memorial Fund for support for this research.

2.4 How the results of your study trip might be expected to benefit practice in Scotland

This is discussed in Sections 3-7 below, in particular at Section 7.

3. GENERAL APPROACH AND METHODS OF STUDY

3.1 Timetable and methods

The fieldwork commenced in July 2012 and was completed in November 2013.

The research relied on two main methods –

- ❖ contacting relevant organisations to carry out interviews and gather information (see paras 3.2 and 3.3)
- ❖ to augment this research, examination of the relevant literature - not only organisational websites and publications, but also relevant books and academic articles (see para 3.4).

The latter was not part of the research programme agreed with PGMF, so this report focuses more on the interview-based material - but also makes selective use of the literature where relevant.

3.2 The United States

In the US the chief focus of the research was on a range of bodies which have a major role in placing information about third sector bodies in the public domain. All are of US origin and do not have a focus on the UK – with the exception of GuideStar. GuideStar US and GuideStar International are separate bodies. At the time of writing, the latter is active in England and Wales³ although not in Scotland or N Ireland.

These organisations are largely unknown in Scotland, and yet the work they do is of potentially great interest in Scotland (and indeed the rest of the UK). That is because, in different ways, the methods they use could potentially contribute to greater understanding by Scottish citizens of third sector bodies in Scotland – including the effectiveness of TSOs. They are also of interest because there do not appear to be any Scottish-based bodies carrying out similar work in Scotland.

The research involved interviews with four such bodies – Charity Navigator, GuideStar International, the Better Business Bureau – Wise Giving Alliance and GiveWell.

It is worth beginning explaining briefly the origin and role of each of the 4, and its significance in relation to the core research issue of what each contributes to greater public availability of information on TSO effectiveness than would be the case if it did not exist.

This discussion is then followed up with a more detailed discussion in the Section 5 of this report of their main activities and methods.

Charity Navigator

Charity Navigator (CN) was established in 2000. Its web site launch was in 2002, where it publishes information on many US charities, including the rating CN makes of those charities, to inform donors.

CN is itself a non-profit, like the charities it evaluates, and it too aims to attract donor support. It derives its revenue via contributions from users and small foundations that use the service, foundation grants, advertising and data sales.

GuideStar International

GuideStar International was established in 1994 to get a better 'information set' for donors. It was registered as a charity in 1996. GuideStar websites publish information on the 'work, finances and governance' and on the 'objectives, resources, and accomplishments' of charities.

GuideStar's work beyond the US is led by GuideStar International (GSI). GSI became active in the UK in 2002. Its work in the US is in England and Wales, where it is a

³ There was a second body which was active in the UK. Intelligent Giving was established in the mid-2000s to rate charities, solely on the quality of their annual reporting. It eventually experienced problems, and was taken over by New Philanthropy Capital. This service was not continued because it could not be sustained financially as a business model.

registered charity. It is also active in other parts of the world (e.g. Belgium, Israel, India, Japan and South Korea). Since 2010, GuideStar International has been part of TechSoup Global Network, a US-registered non-profit established in 1987 'on the belief that technology is a powerful enabler for social change'.

The Better Business Bureau's Wise Giving Alliance

The Better Business Bureau – Wise Giving Alliance (BBB-WGA) reports on charities, and is the oldest US body to do so. The BBB was established in 1912, to deal with complaints about businesses. The charity area of its work began in the 1920s. It was then one of the few organisations which the US public could turn to for information on charities.

The BBB-WGA is an association of charities. It was the result of a merger of the National Charities Information Bureau (NCIB) and the Council of Better Business Bureaus' Foundation and its Philanthropic Advisory Service (PAS). The BBB WGA network includes 12 bureaux in Canada. It publishes a set of standards of accountability for charitable organisations and evaluates charities against those standards. Charities meeting the standards are termed "BBB Accredited Charities".

GiveWell

GiveWell was established in 2007 by two donors from the financial services industry who found that there was a significant gap in the data available publicly – including data from Charity Navigator and GuideStar US - which prevented donors from making an informed judgment about how to donate, to achieve best effectiveness in their donations.

GiveWell is a charity. It was established to carry out very detailed research on the select few organisations where, after rigorous analysis, GiveWell was able to conclude that donor support would have best impact.

Other non-participating bodies

The original plan for the research identified three further bodies, in addition to those above, which, from preliminary investigation, appeared to have an interest in data on effectiveness, and in some cases a role in helping publish such data to make them more accessible and promote their use to inform donor decisions. It did not prove possible to engage these 3 bodies in the research.

Their role and significance for the research is discussed at Annex 1.

3.3 Scotland

The research had a different focus on Scotland, where there appear to be no bodies active which are similar to the US ones above. However, information was collected via interview from a range of bodies which – for different reasons, and in different ways – nevertheless have an interest in or responsibility for gathering information on the effectiveness of TSOs, and in some cases hold but generally do not publish information on the effectiveness of Scottish-based TSOs.

The bodies involved in this part of the research were

- ❖ the Scottish Government
- ❖ the Office of Scottish Charity Regulator(OSCR)
- ❖ the Scottish Council for Voluntary Organisations(SCVO)
- ❖ the Voluntary Action Fund(VAF)
- ❖ the BIG Lottery Scotland(BLS).

In addition, there was

- ❖ discussion with another SCVO officer about possible sources of information, in Scotland and the rest of the UK
- ❖ use of SCVO Evidence Library
- ❖ discussion by e-mail with two academics with an interest in voluntary organisations (Prof. Stephen Osborne, Edinburgh University) and philanthropy (Prof. Eleanor Shaw, Strathclyde University)⁴ and
- ❖ discussion with a manager at New Philanthropy Capital, a consultancy think tank based in London, whose roles includes supporting TSOs to become more effective in their practice, including focusing on assessing and reporting their effectiveness.

4. FINDINGS #1 – THE THIRD SECTORS IN THE US AND SCOTLAND

4.1 Overview of the third sector

In the US, a 'charity' is "a public service organisation under 501(c) (3) of the US Tax Code. Under federal law, those charities are tax exempt, and donations to them are typically tax exempt" (Stern 2013 2). They "employ approx 13 million people. Around 61 million Americans volunteer, adding the equivalent of another 5m full-time employees. Charities receive \$1.5tn annually in revenues, and have assets of almost \$3tn." (ibid).

In Scotland, a charity in Scotland is "an organisation which is entered in the Scottish Charity Register. Charities can have many constitutional forms, for example companies, trusts or unincorporated associations." (OSCR website).

In the US, widening the focus from 'charities' to 'non-profits'⁵ increases the number of third sector bodies. The Urban Institute reports that "the non-profit sector has been growing steadily, both in size and financial impact, for more than a decade. Between 2001 and 2011, the number of nonprofits has increased 25 per cent - from 1,259,764 million to 1,574,674 million today. The growth rate of the non-profit sector has

⁴ The research also involved checking publications by an English-based academic research body whose role focuses on the third sector, and another English-based academic body with a management school focused on the third sector.

⁵ It is important not to give too much attention in this report on effectiveness to a discussion of different organisation types in the third sector. However, as Herman & Renz comment "As many have observed, the (US) legal category that has often been used to define and identify nonprofit organisations includes very disparate organisations in terms of activities, size, scope, and other characteristics. What such organisations have in common at a minimum is that they cannot distribute earnings to anyone (the nondistribution constraint) and that they must receive certain proportions of their revenues from various public sources (that is, public support)." (Herman & Renz 2008 406).

surpassed the rate of both the business and government sectors” (Urban Institute website).

Meanwhile, at the time of writing, GuideStar, whose focus in the US is all non-profits, claims to have gathered information on the 1.8m non-profits which are recognised by the IRS. GuideStar currently estimates US non-profits’ annual income as \$1.9 trillion, a sum which they eye-catchingly describe as “exceeding the total GDP of Canada, Australia, Russia, or India” (GuideStar website).

4.2 Comparative analysis of the US and Scottish third sectors

For simplicity of presentation in PGFM’s report format, this report focuses on similarities and differences in three major areas of the third sector –

- ❖ context (types and numbers of third sector bodies)
- ❖ policy (public policy on the role and regulation of third sector bodies) and
- ❖ practice (relating to reporting of effectiveness data).

4.2.1 Similarities

There are some similarities across the two countries, in each of these three areas: -

Context

- ❖ charities appear to fall into recognizably similar sectors (e.g. personal social care, education, health, environment, criminal justice, arts and culture, religion, animal welfare, employability, homelessness/housing, emergency response/humanitarian aid, etc) – even if the ‘labels’ for these sub-sectors vary
- ❖ perhaps surprisingly from a Scottish perspective, in relation to one simple measure, the numbers of registered charities in each country are more similar than might be expected, when those numbers are standardized by population⁶

Policy

- ❖ charitable status is generally based on the concept of public benefit, which in turn is often expressed in reduced or exempted tax liabilities
- ❖ the main focus of regulation is therefore governance and financial propriety
- ❖ in contrast, public policy thinking about, and practice relating to, effectiveness appears to be less well developed than thinking and practice on charities’ financial propriety – and certainly regulation by the Internal Revenue Service and the Office of the Scottish Charity Regulator focuses on effectiveness in individual charities indirectly rather than directly.

Practice

⁶ The US has a population of 315 million people, while Scotland’s population is 5.2 million. There are approximately 1.1m US charities (Stern 2013 2) while OSCR registers 23,000 Scottish charities. In round terms, this suggests that, for every million people in each country, there are around 3,500 US charities and 4,400 Scottish charities.

- ❖ the extent of a TSO's reliance on public (governmental) money as a source of income may expose it to effectiveness judgments which are like those for public sector bodies and/or are made by procurement bodies in the public sector.

4.2.2 Differences

The research indicates that there are also significant differences between the US and Scotland (and England & Wales) in these three areas: -

Context

- ❖ The most striking difference is sheer scale, not surprisingly. Currently, the *annual* rate of registration of *new charities* by the IRS is approximately 50,000 – more than twice the total of 23,000 Scottish charities currently registered by OSCR.

Policy

- ❖ Registration of charities is dealt with at national level only in Scotland (and elsewhere in the UK). However, in the US, registration is at both national (i.e. federal) and also at state level. The latter, which began in the 1960s, relates to charities which solicit for donations within the area of the individual state.

Practice

- ❖ There appears to be no Scottish equivalent of the work carried out, to place information on TSO effectiveness in the public domain, by national or regional bodies such as the US's Better Business Bureau, Charity Navigator, GuideStar (although GuideStar is active in England and Wales) and GiveWell⁷.

4.3 Literature on third sector effectiveness in the US and Scotland

Although not part of the original research plan, work also included a review of literature in the US and Scotland/the UK. The latter is much less extensive, perhaps reflecting the different stages of development of thinking and practice in the two territories.

5 FINDINGS #2 – THE UNITED STATES

In this part of the report, the main findings are presented for the four bodies studied - Charity Navigator, GuideStar, the Better Business Bureau's Wise Giving Alliance and GiveWell. The text expands on the 'thumbnail' description of each body in Section 3 above, by describing their roles and methods more fully.

In the case of three (Charity Navigator, the Better Business Bureau – Wise Giving Alliance and GiveWell) there is also a discussion, highlighted in boxed text, which showcases the contrasts in the three differing approach each takes in improving public availability on non-profit effectiveness - what might be termed respectively, their '**ratings**', '**standards**' and '**scalability**' approaches.

⁷ Evaluation Support Scotland helps TSOs by providing advice and resources to help them assess their own effectiveness – as contrasted with developing ratings, or proposing standards, like the US bodies. Other bodies, such as Foundation Scotland (formerly the Scottish Community Foundation) and Inspiring Scotland, differ from these US bodies in that they are grant-makers.

5.1 Charity Navigator

The Charity Navigator (CN) website currently has an average of 13,600 daily hits. In the first 3 quarters of 2012 there were 3.3m discrete visitors. CN demographics indicate that a typical individual user is 45+, and on average makes \$1,500 - \$3,000 of charitable contributions each year. Family foundations also use CN evaluations.

CN publishes data on individual registered charities and also its rating of each charity (based on those data), on its website.

To be able to do so, CN requires a set of 4 consecutive years of data for each charity, before it can publish its rating of a charity. This is one of CN's rating eligibility criteria. The others generally require that the charity must have at least \$1 million total revenue, of which no more than 50% comes from governmental sources; it must report fundraising expenses; it must be registered as a "501 (c) (3) public charity" under the IRS Code; and it must file the long-form IRS Form 990.

A ratings approach

In essence, as a rating agency, CN gathers information which is already in the public domain (chiefly Internal Revenue Service data, supplemented by other data such as information from a charity's website or annual report) on large numbers of charities, then uses those data to make a judgment about the performance of the charity in each of the areas assessed (i.e. the 'rating').

The different phases of Charity Navigator's work illustrate the evolution of thinking and practice.

In its first phase, commencing in 2002, CN published data on its website reported by charities to the IRS. These data allowed CN to make ratings judgments of charities' financial status and health.

In the second and current phase commencing in 2011, CN also began publishing data and ratings relating to charities' accountability and transparency (what CN refers to as 'two dimensional' rating), again using publicly available data. Each phase results in cumulative data being published.

By October 2012, CN was publishing ratings for 5,800 charities. Of those, 975 (17%) charities were international; 1,091 (19%) were national, and 3,784 (65%) were regional. CN estimates that those 5,800 charities receive approximately 50% of the revenues received by the US charitable sector each year.

Looking ahead⁸, CN is currently planning an ambitious additional third phase, not yet fully developed and for which the timetable had not been confirmed at the

⁸ Since the original interviews for this research, Charity Navigator has made further progress. 'Version 3.0' was launched in January 2013. By early Spring 2014, CN had rated 7,200 charities. In addition, CN now publishes a single-page summary of data on all charities registered with the

time of the interview, which will add a third 'dimension' which explicitly addresses the issue of effectiveness. It is possible this third phase will address up to four different checks –

- ❖ the extent to which a charity spends its resources on the activities it highlights in its advertising
- ❖ the extent to which a charity's activities can be expected to lead it to achieve the outputs and outcomes it is targeting
- ❖ how far a charity meets externally-set standards (where these exist); and
- ❖ the extent to which a charity explicitly identifies its stakeholders and intended beneficiaries.

In this model, the 'ratings' approach therefore does not rest on voluntarism, and is focused not on the few charities but on the many (but not all charities).

5.2 GuideStar

In the US, GuideStar gathers, organizes and publishes information about 'every single IRS-registered nonprofit organisation' and whatever information it can source on 'each nonprofit's mission, legitimacy, impact, reputation, finances, programs, transparency, governance'. Its aim in doing so is that the reader and user 'can take the information and make the best decisions possible'.

It does not provide any assessment of the effectiveness of any non-profit, or any other aspect of a non-profit's health, or provide any guidance to users of the information it publishes as to how the information should be used to make a donation decision. In contrast to Charity Navigator (see below), GuideStar does not produce ratings for charities, in the way Charity Navigator does.

Similarly, in the UK, GuideStar International publishes equivalent information for all charities in England and Wales which are registered with the Charity Commission for England and Wales (CCEW). Every charity has an equal space in the database. GuideStar understands that some small charities use the GS database as their website, as it holds all the key information on the charity.

The data GuideStar receives from the CCEW and the data it receives from the Internal Revenue Service in the US are very similar. Indeed, from GuideStar's perspective, the main difference is related to data handling rather than data content: the former are received digitally while the latter are paper-based.

The information on TSO effectiveness which GuideStar publishes is restricted to what it receives from the IRS and CCEW. As explained in Section 3 above, in each country, the focus of public policy as expressed via regulation is on governance and financial propriety, not effectiveness – so the data on TSO effectiveness in each country are restricted.

IRS but not rated by CN, (using data on the IRS's '990' form) using the information provided in the IRS Exempt Business Master File. CN also provides links to all publicly available regular Forms 990s and Forms 990-EZ. Also, CN is now varying its original workplan, by re-sequencing its work simultaneously across the different causes.

However, in England and Wales – in contrast to the position in Scotland – the CCEW collects information on public benefit reporting, which addresses, albeit indirectly, some aspects of effectiveness. Public benefit reporting is discussed more fully in Section 6 below.

In England and Wales, GSI originally gathered data from charities' annual reports and accounts, but no longer does so. At present, its sole source of routine information for charities in England and Wales is the Charity Commission data. In the case of some charities, there is annual report/accounts information as part of the data received from CCEW, in which case GuideStar will include that information in its database – but if that information doesn't come from the CCEW, it won't appear in the GuideStar database.

After developing its database for charities in England and Wales, GuideStar International found its business model was not sustainable in the form it then took. It was at this time that it merged operations with TechSoup Global. The database remains available and is still updated regularly (at least quarterly) using the data from the CCEW. GSI has yet to take a longer-term decision on the future of the database in England and Wales. GSI is "looking to see what is best for the sector in the UK in terms of growing its services and sector relevant data", while "TechSoup is developing a new cooperative sector platform which will be bringing new value to sector related datasets for many stakeholders".

Meanwhile, in the same period, GuideStar International has established similar databases in several other countries (e.g. Belgium, Israel, India and South Korea) – in some cases where there was no existing national database of civil society organisations (CSOs) as in the US or England/Wales. This process is helped by the fact that the GuideStar database can readily be replicated in different countries, and in 6 different languages. A central aim of GuideStar's international work is to make CSOs 'more visible to those who wish to support their work'.

TechSoup Global Network supports CSOs in over 50 countries. Several of TechSoup's activities (e.g. its flagship programme which helps nonprofit organisations and libraries access the technology resources and knowledge they need to operate at their full potential, which TechSoup believes may be the largest technology product philanthropy program in the world) are beyond the scope of this research. However, a further international role which indirectly addresses questions of charity effectiveness, is that GuideStar and TechSoup have been selected by the US Council on Foundations to manage NGOSource, an 'equivalency determination' service intended to help US-based grant-makers more quickly determine whether an overseas CSO is equivalent to a US '501c3' charity.

At present, TechSoup's vision is to "over time, to capture information about all the civil society organisations across the globe". It considers that global philanthropy is dramatically under-developed, and wants to assist that, via global websites, so that donors can take their role as 'pro-active citizen investors' seriously.

The GuideStar model, in both the US and England & Wales, therefore contrasts with the

Charity Navigator model by publishing data on all registered charities (as contrasted with the major charities), but without any accompanying ratings as in the CN model or other type of assessment to guide the reader.

5.3 The Better Business Bureau – Wise Giving Alliance

The Better Business Bureau's Wise Giving Alliance (BBB-WGA) network evaluates a total of 13,000 national charities and also 10,000 regional or local charities. Not every charity responds to BBB-WGA's request for information – in which case, BBB-WGA highlights that point, so that the public can draw its own conclusion. Overall, 55-60% of the charities which the BBB-WGA evaluates meet the BBB-WGA standards. The others fail to meet one or more of the standards.

Charity effectiveness has been an issue which has been under serious consideration by BBB-WGA for over 10 years.

A 'standards' approach

The BBB 'standards' approach involves persuading charities to adopt standards, developed specifically for charities, on a voluntary basis. The standards are designed to promote the principles of openness and transparency.

In 2003, the BBB-WGA first addressed the issue of effectiveness by initiating a new standard for this. The standard invited charities to carry out a self-audit of their effectiveness every two years, and to report the findings back to the charity's board - but not also to report this publicly.

BBB-WGA was aiming to improve standards yet to avoid making a proposal which involved longitudinal work, was expensive or would require external help from a consultant.

The 2003 standard remains in place. Overall, charities have been working to improve their practice in this area, but it is also a standards which is not always met.

Then, in 2009, to address the growing external demand (e.g. from donors) that the standards be more strongly focused on effectiveness, the BBB – in partnership with GuideStar (which provided the reporting platform) and Independent Sector (a coalition of charities formed in Washington DC in 1980), and with funding from the Hewlett Foundation - developed the Charting The Impact (CTI) initiative.

CTI was launched in 2012. It is based on five questions, chosen to be simple yet powerful, and also to be relevant to all charities, in focusing on effectiveness:

- 1) What is your organisation aiming to accomplish?
- 2) What are your strategies for making this happen?
- 3) What are your organisation's capabilities for doing this?
- 4) How will your organisation know if you are making progress?

5) What have and haven't you accomplished so far?

The BBB understands that, by October 2012, 200 charities were using CTI, while another 600-800 were considering doing so.

The BBB-WGA standards relate to internal management – and therefore more to those 'governance' aspects of organisational effectiveness, than to what might be termed 'delivery' or 'programme' effectiveness. Because the model rests on voluntarism, and because there is a burden on the organisation in providing evidence of having achieved the standards, as would be expected, this model is in effect one for the few, rather than the many – with a particular appeal for charities which wish to associate themselves with outstanding or excellent practice.

Meanwhile, BBB-WGA is a member of an international body, the International Committee of Fundraising Organisations (ICFO), whose members work to similar standards to those proposed by the BBB-WGA.

In addition, the Chief Operating Officer of the BBB-WGA also serves on the Not-for-Profit Advisory Committee of the Financial Accounting Standards Board in the US. The FASB has considered addressing the issues of improving the availability of effectiveness data for charities by considering requesting a management statement, like the one which is currently required of for-profit bodies. Another issue here is that auditors are more comfortable with output than outcome data.

5.4 GiveWell

GiveWell's founding aim was to address what its founders considered the poor public availability of high quality information on charity effectiveness to serve donor needs.

That has led it to avoid investigating non-profits it does not expect to do well against its assessment criteria. Instead, it focuses more narrowly on identifying those non-profits⁹ which are the most effective. GiveWell's approach involves detailed analysis of selected non-profits, focused on assessing several key attributes of each non-profit, including its 'scalability'.

A scalability approach

GiveWell focuses on categories of impact – mainly abroad, particularly in sub-Saharan Africa (e.g. developing world health, developing world poverty). Earlier in its history, it gave more emphasis to charitable causes in the US (e.g. early childhood care and education, K-12 education, and employment assistance).

GiveWell's 'scalability' test is a particular test of effectiveness – the identification of outstanding non-profits which offer the best scope for further investment.

Having chosen an impact area, it does not primarily focus on distinguishing excellent and mediocre charities. Because its work is intended to guide highly

⁹ GiveWell's work has included examination of the work of bodies which are not traditional charities, such as scientific research institutions and journals.

targeted support by donors, its focus is to identify funding gaps. A major dimension of effectiveness, therefore, is of 'scalability' – defined by GiveWell as the non-profit's ability to generate consistently high returns from additional investment.

Via robust evidence to support informed investment by donors and others, GiveWell therefore aims to identify where money will have the greatest impact and where dollars go further. This explains why so many of its top-rated charities are active overseas, and few are in the US.

While 'scalability' is an important test, GiveWell analysis also checks systematically for proven methods of delivery, cost effectiveness, and transparency too. Strong leadership is also assessed.

The data search GiveWell uses reflects the depth of analysis of the analytical themes above. In addition to using traditional public available sources provided by the non-profit, GiveWell requests additional information – including unpublished information - from each non-profit. It also carries out discussion with the non-profit's personnel. In addition, it makes considerable use of academic and related sources (e.g. on the efficacy of certain interventions), and other non-traditional sources (e.g. data from federal agencies which may have contracted with the non-profit).

GiveWell's review in 2009 identified 10 non-profits which met its tests - seven in the developing world and three in the US. However, GiveWell emphasizes that the fact that it recommends so few organisations should not be taken to imply that only a few organisations are worthy of support.

GiveWell's method encourages non-profits to be transparent in the information they provide. GiveWell itself aims to be transparent, aiming to publish as much as possible relating to its analytical work, including (where the non-profit has given consent) its notes of its conversations with non-profits which formed part of the analysis.

So, in contrast to the Better Business Bureau, GiveWell, does not set standards. In contrast to GuideStar, GiveWell does not publish data on all charities – indeed it examines only a small minority of charities. Also, while it rates charities, it does so in a way which is quite different to the method used by Charity Navigator. It also appears to have a unique approach to identifying effectiveness in individual charities.

* * *

While there are important differences in the approaches and methods used by the US bodies examined in this research, there are two fundamental factors which they have in common: -

- ❖ all were established and carry out their work based on a belief that transparency is desirable, and that placing information in the public sphere is a public good

- ❖ doing so helps philanthropists, donors and others to make informed decisions based on evidence – including evidence of effectiveness.

6. FINDINGS #3 - SCOTLAND

6.1 The Scottish Government

As in so many other areas of public policy and public management, the Scottish Government has a unique role in relation to the third sector. Its roles include establishing national policy relating to the third sector, and it also both supports the sector (e.g. via its work and the resources it provides to help building the capacity of the sector such as the £12m. allocated in 2013/14 - 2014/15 for this, and research into the long-term health of the sector) and also contracts with TSOs to carry out certain activities.

The research confirmed that ministers recognise that the effectiveness of TSOs is important, particularly where this adds value where the statutory and private sectors cannot do so. Overall, from the perspective of the Scottish Government, it is TSOs' contributions to achieving the Government's 15 national outcomes which is their single most important contribution. In turn, this is the main focus of the Scottish Government's attention, even if the evidence base for the sector's contribution is not as robust as the Scottish Government would prefer.

There have been at least two important developments within the Scottish Government relating to the effectiveness of TSOs.

First, over the last five or so years, the Scottish Government has been moving from procurement whose effectiveness was judged by relying mostly on input and output information to procurement which is increasingly based on better information on 'outcomes' (i.e. effectiveness). That transition is well under way, but - as at present there is less information on outcomes than on outputs and inputs – it is not yet complete. Looking ahead, there are several factors which are likely to drive this transition further forward – including the impact of reduced public spending (which will continue to focus attention on the 'what works?' question of what is most effective), and the Scottish Government's commitment to the 2011 Christie Report recommendations on prevention, which focus on a particular type of effectiveness.

Second, the Scottish Government is currently investing in-house research and analytical expertise to identify appropriate methodologies to better assess added value and effectiveness. This work is intended by the Scottish Government to augment the tools which TSOs and funders already have (e.g. Social Return On Investment, whose use the Scottish Government supports yet recognises is not suited to all TSOs; and social audit) - as contrasted with addressing how the Scottish Government can improve its own efforts to trace added value/effectiveness.

Meanwhile, the Scottish Government's own publication of TSO effectiveness information relates to information on programmes where it provides support to TSOs (including the aims of the programmes, the individual TSOs which receive funding or support, and the value of that financial support). The Scottish Government believes this provides

reassurance to the public that there has been a process that the TSOs have had to go through, to merit receiving support.

As all of this suggests, the Scottish Government therefore recognizes that publicly available information on TSO effectiveness is important, and it also recognizes that it has a role in assisting such information being placed in the public domain.

6.2 Office of the Scottish Charity Regulator

The Office of the Scottish Charity Regulator (OSCR) is the 'the independent regulator and registrar for over 23,000 Scottish charities, including community groups, religious charities, schools, universities, grant-giving charities and major care providers' (OSCR website).

The key roles of the Office of the Scottish Charity Regulator (OSCR) relate to issues of propriety and regularity within charities which are registered in Scotland.

OSCR has no role, on a statutory or other basis, relating to supporting charities to flourish, or be effective. Likewise, it has no role relating to either gathering or publishing information on the effectiveness of charities.

At the same time, OSCR recognizes that there is likely to be a link between good governance within any charity and the probable effectiveness of that charity.

Charity law requires OSCR to check that a charity's aims and activities are charitable – and it is in this important area of its work that OSCR considers it makes its major contribution to ensuring the effectiveness of registered charities. Once a charity is registered, one of OSCR's roles is to check that the charity's activities do not drift away from its original aims (in effect, a 'congruence' test). Such drift ('mission creep') happens occasionally. If so, OSCR advises on how the charity can address the problem (e.g. by updating its aims, or moving back to its original aims).

In addition to its 'effectiveness' work above, OSCR also aims to promote transparency within charities, and in relation to the data which are publicly available relating to them. A major reason for OSCR's interest in transparency is that it recognizes transparency as an important means of establishing and sustaining the confidence of citizens in registered charities.

In contrast to the position in England and Wales (and more recently, in Northern Ireland), in Scotland there is no statutory requirement for public benefit reporting. In turn, that means that OSCR's role differs in this regard from that of the Charity Commission for England and Wales. The public benefit requirement was not included in the Charities & Investment Trustees (Scotland) 2005 Act – the reason for which is not clear. At the time of the research, introduction of mandatory public benefit reporting in Scotland was not under discussion.

It might be helpful to include a brief description of public benefit reporting: -

Public benefit reporting in England and Wales

The position in England and Wales is as guided by the Charity Commission for England and Wales. Public benefit reporting is a duty for charity trustees, who must report on how they have carried out their charity's purposes for the public benefit.

The Charities Act requires charity trustees to 'have regard' to the Charity Commission's public benefit guidance 'when exercising any powers or duties to which the guidance is relevant'. The Charities (Accounts and Reports) Regulations 2008 requires charity trustees to include a statement in their Trustees' Annual Report as to whether they have complied with that duty. 'Having regard' means trustees should be able to show that they are aware of the guidance; have taken it into account when making a decision to which the guidance is relevant; and if they have decided to depart from the guidance, they have good reasons for doing so.

There are two aspects of public benefit – the 'benefit aspect' and the 'public aspect'. In general, for a charity's purpose to be 'for the public benefit' it must satisfy both the 'benefit' and 'public' aspects. (There are different requirements if the purpose is to relieve or prevent poverty.)

The CCEW tests are: -

- ❖ the 'benefit aspect' - a purpose must be beneficial; and any detriment or harm that results from the purpose must not outweigh the benefit
- ❖ the 'public aspect' – the benefit must be for the public in general or a sufficient section of the public; and it should not give rise to more than incidental personal benefit.

Overall, charities appear to have more discretion in relation to their public benefit reporting than they have in relation to their financial reporting.

Nevertheless, OSCR encourages charities to engage voluntarily with public benefit reporting – and indeed some of the larger Scottish charities do in fact do so. OSCR's view is that such reporting could lead, amongst other impacts, to improved reporting by charities of the outcomes they are achieving.

6.3 Scottish Council For Voluntary Organisations

The SCVO is the representative body for the third sector in Scotland. Its membership, currently at a record peak, is over 1,500 voluntary organisations. It estimates that its members employ over 50,000 people, more than 40% of the total paid workforce of the sector.

SCVO also estimates that the sector generates over £4.1 billion each year to help people and communities across Scotland, and that in addition to its paid staff there also more than 1.3million volunteers.

The research confirmed that SCVO considers it on balance desirable that information on the effectiveness of voluntary bodies is publicly available, after taking account of the benefits and risks it believes are involved: -

- ❖ The benefits SCVO identifies are that this helps voluntary bodies discharge their duty to inform the public about what they do and how effective they are, and it helps the public better understand the role of voluntary organisations and what they are achieving. Both of those benefits would also help citizens understand that voluntary organisations aren't simply 'taking up the slack' from the public sector, SCVO believes.
- ❖ The risks SCVO identifies are that the public misunderstand the information; that inappropriate comparisons are made between voluntary organisations which have different aims, and that voluntary organisations concentrate more on short-term issues.

On the specific issue of existing publicly available sources of information on effectiveness, SCVO considers that, at present, the main sources are each body's annual report/accounts and its website; OSCR; SCVO's evidence library (where relevant) and (also where relevant) any public reports where there is a further regulatory body such as the national regulators in Scotland for social care, education and housing).

There are also tools which can be used to gather and report information on the effectiveness of a voluntary organisation (e.g. Social Return On Investment), but they are not used throughout the sector, and are not a widely available source of information.

SCVO is also aware that one of the US-origin bodies, GuideStar, had received public money to develop its work in England and Wales, but that its exploration a few years ago of the possibility of working in Scotland did not take place – because, SCVO understands – there was not a strong enough potential for GuideStar's business model to succeed in Scotland¹⁰.

6.4 Voluntary Action Fund

The Voluntary Action Fund (VAF) is an important independent grant-making body which invests in voluntary and community based organisations across Scotland. VAF has a close relationship with the Scottish Government: VAF is the grant-maker but the Scottish Government is the funder.

The VAF considers that there are two main areas in which effectiveness information is needed on third sector bodies – in relation to their governance/financial management/etc, and in relation to what they are achieving. It is in the first of these two areas that information on effectiveness - including information which is publicly available - is much more readily available and more robust. However even in that first

¹⁰ It was not possible to clarify GuideStar's experience in Scotland, as the personnel involved were no longer in post.

area, VAF has found occasionally that a TSO appears stronger in paper than it is in reality (e.g. in relation to financial management).

Data on effectiveness are important. For a funder, it can help tell a lot about the culture of an applicant body. More important, such data allow the funder to assess the effectiveness of both the funded body and also the effectiveness of delivery of the funder's programmes. The latter is an issue on which VAF believes Scotland's funders/grant-makers will increasingly need to co-operate.

Factors which are hindering the development of effectiveness data include

- ❖ public procurement (where data which are commercially sensitive do not enter the public domain)
- ❖ the time involved for TSOs in arranging to gather and report fully on their effectiveness
- ❖ confusion within TSOs about which tools or methods for doing so are best for their organisation; and – arising from the last two factors –
- ❖ lack of knowledge in some TSOs of how effective they are.

Factors which are helping the development of effectiveness data include

- ❖ public procurement (which increasingly focuses on effectiveness as contrasted with outputs)
- ❖ increasing flexibility by funders and grant-makers with the bodies they fund, encouraging them to focus on outcomes rather than activities – and on occasion encouraging applicant bodies to focus on a smaller number of outcomes if that means encouraging the applicant to concentrate on what it does best.

VAF holds a range of effectiveness-related information: -

- ❖ financial management information relating to the projects supported (but not normally on the whole organisation). Normally the information VAF receives is reported to it every six months, but project financial information is received quarterly.
- ❖ information on the achievement of the outcomes agreed (with less emphasis on activities). There is also information on challenges, learning points, and where relevant on how the situation for beneficiaries has changed.
- ❖ VAF also carries out an organisational health check, for the major bodies it funds – a further source of information. VAF does not have the resources to carry out the check for all funded bodies. The check includes issues such as finance, management, volunteers, standards, board/staff relations, among other issues.
- ❖ Where possible, a further health check is carried after a year or so to compare the data. This helps measure progress and effectiveness against the baseline information gathered initially.

Overall, VAF uses the data above to answer two questions for each funded body – is the organisation effective, and what were the benefits for beneficiaries, and communities?

VAF's information is robust enough to allow comparisons to be made between its programmes. VAF uses the three-colour traffic light system to rank funded bodies, using

the data above – and can use that ranking to make comparisons between individual bodies which it funds.

Some of the data above are published, or shared with its Scotland Funders' Forum partners – such as in VAF's published evaluations of its programmes (e.g. its Community Chest programme evaluation from 2012). VAF publishes information on its website on what has been funded, with a project summary.

In some cases, depending on the funding arrangement with the Scottish Government, VAF reports data directly to the Scottish Government. As a third sector intermediary, VAF is not obliged to release information via Freedom of Information requests. However, it is often asked to provide the Scottish Government with information on particular projects (e.g. those under scrutiny by politicians or the media). This is then published and is in the public domain.

VAF can see pros and cons were more information on effectiveness to be placed in the public domain. The main argument in favour is that it increases openness. The main arguments against relate to the need for data to be accurate, and the special considerations relating to an individual TSO which is performing poorly.

6.5 BIG Lottery Scotland

The BIG Lottery Scotland (BLS), part of the BIG Lottery across the UK, is a major Scottish grant-maker for the third sector.

BLS recognizes that there is a lot of publicly available information on TSOs in relation to issues such as finance and governance, largely due to the work of OSCR. However, there is much less information which is publicly available on effectiveness.

In addition to any need which citizens may have for such information, professionals, including funding bodies like the BLS in particular, need information on effectiveness which allows comparisons between two or more charities. Also, professionals and in particular the public both need information on effectiveness which is succinct and accessible. So BLS recognizes that the current situation is one where there is a gap in what is available.

There are factors which BLS considers have hindered closing that gap: -

- ❖ limitations in TSO's access to resources such as skills, staff and IT (something which BLS aims to address in the capacity-building aspects of its grant-making)
- ❖ the particular difficulty of demonstrating effectiveness in relation to delivery outcomes which are preventive (e.g. early years work, work with older people), and the challenge of finding data which demonstrate what didn't happen/why/how much was attributable to the work of the funded body.

However, there have also been helping factors: -

- ❖ BLS was formed in 2006 from the merger of two previously separate bodies which had different approaches to gathering information on the effectiveness of TSOs they funded – so a significant development in the 7 years since then has been integrating

those two systems, so there is now a much greater focus on effectiveness in funded bodies. BLS considers itself to be an 'outcomes funder' (as contrasted with being an activity funder, and focusing on outputs). It therefore has a very keen interest in the effectiveness – in particular, project delivery effectiveness (rather than whole organisation effectiveness) – and aims to compare the effectiveness of different bodies which it funds.

- ❖ BLS is able to access information reported by bodies it funds, which gives BLS greater access to effectiveness data on those funded bodies than a member of the public - although it can take time for BLS to assimilate the data it receives. Overall, the quality of the data BLS has access to is improving.
- ❖ There is increasing collaboration between grant-makers/funders, who increasingly focus their attention on effectiveness in relation to outcomes, and in turn grant-makers seek similar data from funded third sector bodies.

The main uses of effectiveness information are

- ❖ (for third sector bodies) to access funding
- ❖ (for third sector bodies, funders and regulators) to demonstrate accountability/meet regulatory requirements
- ❖ (for BLS) to demonstrate that the good name of BLS is being supported by the programmes and organisations it funds
- ❖ (for a number of grant-makers and funders) to help take forward the current impetus towards 'social investment' (as contrasted with economic-only investment) – which in part involves a move from instruments such as grants and service level agreements to growing use of instruments such as Social Return On Investment, cost-benefit analysis and social impact bonds.
- ❖ a less-well recognised use is the need volunteers have for information about the effectiveness of third sector bodies (e.g. so they can answer questions like 'where can I make a difference?').

BLS uses two key tests to check whether it should support an application for funding - 'the organisation can manage the project well and achieve the proposed outcomes' and 'the proposed project outcomes meet an identified need and help achieve the [programme or investment area] outcomes'.

BLS (and the Big Lottery across the UK) has very good information on matters such as the value of the grants it makes (BLS makes approximately 100 awards each month), the programmes to which those grants relate, the bodies receiving payments, and financial management by those bodies of funds received from BLS. However, the range of information relating to effectiveness is not quite so strong.

There are several reasons for this –

- ❖ see 'hindering' factors above.
- ❖ BLS finds that drawing evaluative conclusions from the database is not as straightforward as might be expected, even when bodies are funded to carry out similar activities – for example, due to the diversity of bodies funded and also the diversity of beneficiaries involved in funded projects (e.g. BLS'S 'Life Transitions'

- funding stream is used to support a wide range of beneficiaries, including ex-prisoners, young people leaving care, and people overcoming addictions – and the outcome, a good transition, is very broad).
- ❖ BLS is a 'bottom-up' funder (in contrast to EU funding, for example), making it difficult to 'aggregate' data and draw conclusions relating to two or more funded bodies.

In relation to the effectiveness of its own programmes, BLS is more easily able to draw conclusions where the programme has a smaller pot of money, or alternatively where are recognised methods/models of practice for delivering a particular project, which facilitates comparisons between delivery bodies.

BLS reports on the effectiveness of its funding in its annual report, and also by commissioning and publishing periodic evaluations (e.g. a five year evaluation of BLS's 'Growing Community Assets' programme). In addition, BLS carries out in-house evaluations of other programme themes (e.g. support for ex-offenders leaving prison) – although the data from such evaluations are not always as robust as BLS wishes, or as robust as the data produced by the more rigorous 'Dartington'¹¹ model. However, the strength of this kind of evaluation - which often relies on 'soft' data - is that it allows BLS to determine which of its own programmes have most impact. These evaluations do much to bridge the data gap between the two key BLS questions above.

BLS does not report on, or comment on, the effectiveness of individual third sector bodies which it has funded – and is unlikely to do so in the future.

Finally, in relation to making in-house data on effectiveness more widely available, there is a debate across the UK, among funders, and within BLS too, about 'open data' – where each organisation asks 'which of the data we hold might be valuable to others?'. The pros and cons here are complex: -

- there are considerations of both freedom of information and of data protection
- sharing/publishing needs to be accompanied by contextualisation and warnings about drawing false conclusions from the data
- the data are complex (in form, often in narrative and perhaps also lengthy) and not always accessible particularly for non-specialists
- BLS funds many activities which are new and innovative – which creates a special challenge, in relation to judging effectiveness.

¹¹ The Dartington Social Research Centre offers high quality evaluation work, based on rigorous methodology (e.g. randomised control trials). It has done some work in Scotland, including work for BLS (e.g. prevention of re-offending). It has also carried out work in the US, where more rigorous evaluation methods are more common than in the UK.

BLS has also used New Philanthropy Capital and Evaluation Support Scotland to examine issues of effectiveness.

7. CONCLUSIONS; INITIAL REACTION TO THE RESEARCH; RECOMMENDATIONS; FOLLOW-UP WORK.

7.1 Conclusions

The question, “how effective is a charity or non-profit?” is clearly an important question. Indeed, it is arguably the single most important question which might be asked in relation to any TSO – in any country. Moreover, it is a question which appears to be important for all whose interests are affected – a lengthy list of interests including not just donors or citizens, but also the TSO’s beneficiaries, its funders, its other partners, and of course the TSO itself (including its board, managers, staff and any volunteers).

The issue of effectiveness information for TSOs is elusive, but not impossible to address. The core concept is arguably very simple: effectiveness is the extent to which a third sector body actually accomplishes the goals it has previously set for itself.

However, the research and literature review suggest there are reasons why elusiveness has been a problem. There appear to be at least five such reasons which are relevant, and they might be described as conceptual, technical, policy-related, market-related, and TSO practice-related: -

1. **Conceptual:** The research found that in some contexts, effectiveness was discussed primarily or solely in term of the services or activities a TSO delivers, while in other contexts it is discussed primarily or solely in relation to internal management and governance – and indeed some of those discussions in one area of effectiveness did not appear to recognize the importance of the other area. It seems unlikely that any discussion of what might be termed for the purpose of this research ‘delivery effectiveness’ can be complete without recognizing the mutually-supporting importance of what might be termed ‘governance effectiveness’ – and vice versa.

A second conceptual challenge here is the importance of distinguishing outcomes (which are ultimately more important) from outputs.

Related to this is a third challenge: recognising that the different interests or stakeholders listed above do not have identical needs for effectiveness information – suggesting that there may be a need for more than one type of effectiveness information.

2. **Technical:** The research revealed two sets of obstacles in this area. First, even if the conceptual issues above have been addressed, there are technical challenges in measuring effectiveness. Some of these are well-known from the context of measuring effectiveness in public sector bodies – in particular, the challenge of identifying what to measure, and the accompanying ‘metrics’ used to measure and report the outcomes the TSO is actually achieving.

A second technical challenge is how best to move from a snapshot-at-one-moment-in-time assessment of the effectiveness of a single charity (or non-profit), to making comparisons¹² between

¹² Herman & Renz state simply that “nonprofit organisational effectiveness is always a matter of

i) the same charity over time (e.g. to see if it is becoming more or less effective) and
ii) more ambitiously, between two or more such bodies, such as those active in a particular sub-sector (e.g. the arts, environment) where the TSOs have similar goals, aims or objects.

The challenges here include accessing data which are suitable (e.g. comparable, relevant). This is of course a challenge which bodies such as Charity Navigator, the Better Business Bureau and GiveWell have had to address, in different ways, to develop their models.

3. **Policy-related:** The research suggests that in each country, public policy relating to TSOs gives low priority to the issue of effectiveness. In effect, the IRS and OSCAR (like the UK's other TSO regulators) can perhaps be seen as focusing chiefly on propriety in governance and financial management¹³.

OSCAR also encourages charities to engage voluntarily in 'public benefit reporting' (PBR). In England and Wales, public benefit reporting is a requirement for registered charities. However, as the description in Section 6 above suggests, the PBR requirement itself appears to constitute a further test of *charity status* - not of effectiveness. Indeed, the term 'public benefit reporting' could easily be misconstrued as referring to each TSO reporting publicly on its effectiveness.

Meanwhile, in a different policy area, the research in Scotland suggests there are limits to the information on TSO effectiveness which bodies holding such information place in the public domain, whether the intention is to inform citizens, donors, or indeed those who are supported by TSOs or are users of their services. This is of course an issue which is separate from other related issues such as i) those bodies' view of the quality of the information on TSO effectiveness which they hold, ii) the increasing co-ordination of what information on effectiveness such bodies require from TSOs they fund and iii) the increasing trend for such bodies to share at least some of the information they hold with other funders.

4. **Market-related:** The research confirms that there is a donor market for information about third sector bodies, including information about their effectiveness – albeit a 'market' which is not primarily commercial.

This market is well developed in the US (as the flourishing work of Charity Navigator, Better Business Bureau, GuideStar, GiveWell and other bodies suggest) and less well developed in the UK and in particular in Scotland.

At the same time, the research indicated that there are limitations in the US market – e.g. donors spend very limited time carry out their own research on which bodies

comparison. This is logically required. The comparison may be to the same organisation at earlier times, similar organisations, or some ideal" (Herman & Renz 2008 400).

¹³ In addition, the 'form 990' data reported by charities to the IRS generally falls short of financial transparency, as several commentators have pointed out (Gordon et al 2010 211).

merit their donations, and two-third spend no time at all (Stern 2013 149). Also, there is a sub-set of donors, who tend to be major – individuals or institutional bodies - who do make active use of public information, including data from raters and standard setters. However, they appear to be in a minority: Cnaan et al found they comprise just over a fifth of all donors (Cnaan et al 2011).

More positively, as the US bodies reported in interviews for this research, there is growing demand from donors for better information including information on effectiveness. There is also some research which indicates that the availability of such information triggers increased donations (Chen 2009).

5. **TSO practice:** Finally, charities and non-profits might be expected to be the best source of information on their activities and effectiveness. However
- ❖ the research in the US suggests that third sector bodies are reluctant to identify publicly what their goals are, in ways which are measurable – and even more reluctant to publish such results. Indeed, Stern refers to “the third rail of the charitable world: the belief that it is impossible to measure much of what charities do and inappropriate to evaluate people and organisations dedicated to the common weal” (Stern 2013 203-204).
 - ❖ TSOs also tend to make poor use of their annual reports to convey important information (Gordon et al 2010), and indeed GuideStar found that in 2008 just 43% of non-profits it surveyed had even posted an annual report on their website (ibid 213). Gordon et al also found that fewer than half of the charities they surveyed posted reports from more than one year, to allow comparisons to be made (ibid 213). They concluded that “it is very difficult to find information about nonprofit organisations that yields insights about performance or impact” from annual reports (ibid 223).
 - ❖ In 2009, GiveWell began to rate non-profits which were able to meet a very minimal standard of transparency – that the charity published on its web page some meaningful self-evaluation. The standard did not require that the non-profit’s self-assessment be positive, simply that was committed enough to transparency to making the results publicly accessible. Bearing in mind that GiveWell’s entire focus is specifically restricted to non-profits which are likely to be highly effective, it found that only 17 out of 320 (5%) the non-profits it examined met this apparently unchallenging standard.

The discussion and analysis above appears to revolve around a conundrum.

On one hand, third sector bodies appear to have a strong motive for addressing effectiveness. As Badrach et al point out, “for-profit businesses are driven by profit and markets; non-profits by mission” (Badrach et al 2010 225). They point out that if non-profits address key questions (‘which results will we hold ourselves accountable for?’, ‘how will we achieve them?’, ‘what will results really cost, and how can we fund them?’ and ‘how do we build the organisation we need to deliver results?’), then those questions “create a framework that executive directors can use in candid conversations

with stakeholders and in developing pragmatic, specific plans for making tangible differences” (ibid 224).

On the other hand, effectiveness resists being addressed, in the five problem areas discussed at para 4.2 above.

Yet there is little doubt that there is a growing interest in better information on third sector bodies. In the US, this is clear from the existence and growing activities of bodies like Charity Navigator, the Better Business Bureau, GuideStar and GiveWell. It is also evident in the growing financial support given by larger foundations such as Ford, Packard, Kellogg and others which have funded efforts to “shed more light on the internal workings of nonprofits” (Bronfman & Solomon 2010 205). That is also true for federal government, as the role of OSICP indicates. In addition, to introduce a voice often forgotten in this debate, where relevant, there is an always-present need for the beneficiaries who are the reason for existence for many third sector bodies to know more about effectiveness of bodies which support them.

The evidence from Scotland, from this research, is quite different - yet points in the same direction of a growing appetite for effectiveness information.

* * *

As noted earlier, the study was based on two hypotheses.

The first hypothesis was that it is difficult to conceive of an issue relating to a TSO which is more important than its TSO effectiveness. Overall, the research in both the US and Scotland appeared to confirm this hypothesis. Certainly no alternative more important issue was found, or suggested by interviewees. Moreover, despite the different contexts in each territory, it was also clear that the importance of effectiveness was increasing. In turn, so was recognition of the importance of increasing the range, quality and quantity of information on effectiveness which is publicly available. However, it is important to acknowledge that it was beyond the scope of the research to examine the views of the personnel of TSOs, and the views of citizens and donors.

The second hypothesis was that the study would find practices in the US which differed from those in the UK/Scotland, in ways which may be of interest to the future development of thinking about effectiveness in the third sector in Scotland. The first part of this hypothesis was certainly borne out by the research. The second part is perhaps less conclusive, however, and it is worth examining this question a little more closely.

It is possible to recognise the limitations of the approaches in the US - e.g. the relatively limited data relating to effectiveness in the GuideStar and (for the moment) the Charity Navigator approaches; the limited data on ‘delivery’ effectiveness in the Better Business Bureau model; and the small number of non-profits examined in the GiveWell approach.

On the other hand, however, each of these contrasting approaches make a tangible contribution to facilitating the greater public availability of effectiveness data. At the very least, they offer options for consideration in Scotland – if only to help identify the

options for more Scottish-tailored solutions to the question of how to improve what information is publicly available.

It is not difficult to see why this might fit well with several contexts which are distinctively Scottish – e.g.

- ❖ making tangible not just ‘delivery effectiveness’ but also the *social justice* and civic dimensions of effectiveness
- ❖ addressing meaningfully the *public policy* of Best Value and related policies such as the increasing performance focus of public contracting – both of which are distinct within the UK context; and
- ❖ perhaps most important for TSOs themselves, addressing imaginatively via evidence of what they are achieving to meet the *civic needs of Scotland*, how they might more successfully appeal for support from citizen-donors.

In addition, one of the more interesting observations from the research is that in the US there is a set of activities explicitly focused on improving the information publicly available specifically to donors. In Scotland, not only is there no counterpart to the US agencies, but while the interest in the effectiveness of TSOs is just as keen, it perhaps focuses more on the needs of professionals, and much less on the needs for information on TSO effectiveness of citizens and donors (and others). Of course, both sets of needs are important, and meeting one need cannot substitute for meeting the other.

Arguably, the research identified one specific opportunity in Scotland to bridge the interests of professionals with citizens and others – the role of public benefit reporting (PBR). As noted earlier, Scotland is the only part of the UK not to have a PBR requirement as part of its regulatory framework. However, beyond this anomaly, lies an opportunity to address a noticeable gap in regulation and indeed the wider public policy framework towards the third sector of which it is part – the role of publicly available information on effectiveness as a way of improving key information on TSOs and demonstrating TSO accountability.

A second opportunity in Scotland is for its national policy-maker, national regulator and its grant-makers to publish more of the information which they hold on effectiveness but do not currently release. There are of course limitations in doing so – sensitivities relating to some data, the resource implications of doing so, and gaps in the data, for example. However, in the medium term this avenue could be developed, perhaps as an extension of the inter-agency co-ordination and sharing amongst these bodies which has recently taken place. This opportunity merits consideration, not only for the benefit of citizens and donors, but also because of the wider public policy context (such as addressing issues of ‘what works?’ and prevention). Moreover, doing so would help raise understanding of effectiveness itself across all interested parties – a desirable outcome in itself.

However, of the five causes of elusiveness identified earlier, arguably the greatest single opportunity for addressing the problem of elusiveness lies with the last of those five causes – the practices of TSOs themselves. As noted earlier, TSOs are likely to be the best source of information on their activities and effectiveness. If effectiveness is the extent to which a third sector body actually accomplishes the goals it has previously set

for itself, it is difficult to imagine how there could be any better source. Moreover, it is clear that the conceptual and practical causes of elusiveness are likely to be best addressed in the context of TSO practice. However, this opportunity appears to be under-developed - as the scarcity of effectiveness information, found by the research, suggests.

This report therefore ends with five main conclusions: -

- 1) There are important similarities, but also important differences, between the US and Scotland relating to the TSO sector.
- 2) However, there are great differences relating to what information on TSO effectiveness is publicly available in each country – which reflects greater US interest in, and more developed practices relating to, making such information available – in particular to inform donor decision-making.
- 3) Nevertheless, there can be little doubt that such information, if available, could serve important needs in Scotland – and that these needs might be expected not to be identical to those in the US.
- 4) A set of five factors - conceptual, technical, policy-related, market-related, and TSO practice - appear to be the root cause of many of the obstacles to better public availability of effectiveness information.
- 5) There are opportunities to address some of these factors - in particular those relating to TSO practice - which may have benefits for citizens, donors, TSOs themselves, and indeed others with an interest in TSO effectiveness.

7.2 Initial reaction to the research

Peter Gibson Memorial Fund

The research was reported to Peter Gibson Memorial Fund in November 2013, and PGMF considered it in early Dec 2013. PGMF confirmed it wished to publish the research report, with minor changes.

Scottish seminar to discuss the research

In December 2013, with help from the Scotland Funders' Forum (SFF)¹⁴, the author presented findings from the research to the Forum members and others. The Forum's members include several of the Scottish-based bodies which were interviewed as part of the research – and the invitation to attend the seminar was extended to all the remaining Scottish-based bodies which participated in the research, and also to the Peter Gibson Memorial Fund which had supported the research.

¹⁴ The SFF describes itself as follows: "The Scotland Funders' Forum is a gathering of funders in Scotland. Members include statutory bodies and independent grant making trusts, who are committed to best practice in funding the voluntary and community sector and to maximising the impact of funding for the benefit of Scotland. The Forum comes together to share information, to identify and address areas of common interest and to share best practice and learning."

As a result, the seminar followed good practice in offering an early opportunity for participating and interested bodies to hear about the research. It also gave the author feedback on the research, allowing him to draw on discussion at the event in preparing the for-publication version of the research report.

By agreement with the SFF, the presentation focused mainly on the experiences from the US, since they were much less familiar to those invited than experiences in Scotland.

Attendees showed great interest in the issue of TSO effectiveness and in the research. While many of the US bodies were unfamiliar, a few of the attendees had experience of working in the US and/or of the organisations there which were studied as part of the research.

Their main comments on the research presentation were as follows:

1. They agreed that charity effectiveness – and information about this – are both extremely important issues
2. There are gaps in the information publicly available on effectiveness, for several reasons - and that those gaps included the 'preferred availability' data (NB this is discussed later, under 'Recommendation 2')
3. Those gaps hinder consumers/citizens in understanding how effective charities are. The gaps also have other impacts (e.g. hindering funders wishing to evaluate the impact of their programmes)
4. There was consensus that Scottish consumers/citizens need more/better information, as the research identified US consumers/citizens need
5. The Better Business Bureau's 'Charting the Impact' initiative was seen as like project learning.

Attendees also commented on the position in Scotland: -

1. A lot of effectiveness monitoring focuses on money spent, not what's been achieved
2. The Scottish Government and local authorities tend to see the voluntary sector as too crowded, and also wish to reduce the cost of their support for the sector
3. Two thirds of Scottish charities have an annual income of less than £25,000
4. Funders wish to harmonise reporting, to reduce the reporting burden on the charitable/voluntary sector, but this is challenging
5. If a project or initiative isn't seen as effective, it will be regarded as ineffective – but this doesn't appear to allow any scope for learning, and there are cultural issues about admitting failure.

7.3 Recommendations

The research focused on issues of both policy and practice – but in ways which did not (and were not intended to) give equal focus to the roles of central government, regulatory bodies, grant-makers/funders, and the bodies which aim to improve the accessibility and range of information on charity effectiveness. Meanwhile, for reasons of the scale of the research, it was not possible to examine individual TSOs. Those factors all restrict the recommendations which are appropriate.

Nevertheless, it is possible to make some recommendations, specifically relating to Scotland, based on the conclusions from the research and its initial reception – conclusions which are relevant, in different ways, to the roles of central government, regulators, funders and charities themselves: -

Recommendation 1: There is little doubt from the research that the issue of charity effectiveness is an extremely important issue, for both the agencies involved (from the TSOs themselves to central government) and also for citizens/consumers. However, the availability of public information on the effectiveness of individual charities lags behind the importance of this issue. The first recommendation is therefore that all Scottish bodies with a role to play should give this issue greater policy attention than it receives at present, relating to the priority they give in future to publicly-available effectiveness data.

Recommendation 2: The research also suggests that there needs to be practice development, to put Recommendation 1 into effect. The second recommendation therefore is that practice should be developed to reflect as many as possible of the 4 principles below: – that, where possible, the relevant effectiveness data should

- ❖ be publicly available, ideally from the TSO itself
- ❖ focus on how far the TSO achieved what it intended
- ❖ provide information on the TSO’s target and actual outcomes (i.e. benefits)
- ❖ be standardised enough to allow comparisons of effectiveness of the same TSO over time – and, where this is relevant, between 2 or more TSOs which are similar (e.g. have the same goals/charitable objects).

7.4 Follow-up work

At an early presentation of the research to PGMF in Summer 2013, discussion identified the value of a piece of follow-up work which would build on the original research, specifically by focusing on how the obstacles to information on TSO effectiveness reaching the public domain might be addressed.

In parallel with the completion of the original research, the author has developed a relatively detailed proposal, for a project to focus on both the US and UK which – using an innovative mix of consultancy and research – will have a twin focus

- ❖ work with TSOs who choose to participate in the project on identifying each TSO’s options for improving the quality and public availability of information on its effectiveness, to in turn develop sub-sector (e.g. health and social care, education, etc) and sector-wide options to develop good practice and ‘raise the bar’
- ❖ similarly, work with grant-makers and others who support TSOs, again to focus on options for improving the quality and public availability of information on TSO effectiveness.

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Annex 1 - Other non-participating bodies

- ❖ **Charity Watch (CW)** is a US-wide body, based in Chicago. It did not respond to multiple requests for research access. However, further investigation suggested that CW has less focus on issues of effectiveness than the initial investigation suggested and perhaps focuses more on identifying abuses by charities.
- ❖ **The Seattle Foundation (SF)**, the sole regional body targeted, also did not respond to requests. This was unfortunate as it is the sole regional agency traced during the research which is actively pursuing facilitation of information about charity effectiveness, to support informed donor decision-making. Pre-fieldwork correspondence suggested that the initial step taken by the charity - via a publicly-accessible web-based database – had not achieved its intended goal, because the data so far published then were insufficient to allow users to form a judgement specifically about effectiveness.
- ❖ **The Office of Social Innovation and Civic Participation (OSICP)** was the final targeted body. It is unique amongst the US bodies which were targeted and/or participated in the research. It is a federal government agency and has a wide range of responsibilities, most of which appear unrelated to non-profit effectiveness. It was established by President Obama in 2009, shortly after he first took office.

Its work on non-profit effectiveness appears to include reviewing the data available on non-profit effectiveness, to help protect the 'public dollar' interest of the US taxpayer, and the federal government itself, in the context of the huge sums of public money spent by US federal government on services and activities commissioned from the non-profit sector. OSICP's work here is therefore of great potential significance not just in relation to its interest in public spending but in helping possibly transform thinking and practice relating to non-profit effectiveness. However, its work on this issue is not in the public domain. Non-access here is a potentially significant loss – which explains the repeated, but unsuccessful, efforts made to engage this agency in the research.

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