What Executive Directors Need to Know about Nonprofit Watchdogs

5 min read

Key Takeaways

- **The 4 Major Charity Watchdogs:** These organizations are not associated with the government, as each is an independent, nonprofit group of its own.
- **How Can Charity Watchdogs Help Your Organization?** According to a survey of 3,861 randomly selected donors, Able Altruist found that the presence of a charity watchdog seal would greatly or moderately increase the likelihood of giving by 52% of donor
- **Fundraising vs. Administrative Expense:** One factor considered by watchdog organizations is the percent of revenue that nonprofits spend on overhead expenses.

Well, first, there's no need to get nervous. Watchdogs are actually a good thing. Here's why…

With more nonprofit organizations being founded every year, the fundraising landscape becomes increasingly competitive. Donors have more options than ever before when it comes to deciding which nonprofit is worthy of their precious donation dollars.

As a result, executive directors have to find creative ways to attract donors through demonstrating impact, holding events that generate buzz, making events easy to attend by offering remote attendance, and even by sharing fundraising efforts and inviting the world into their organizations through a variety of social media channels.

One simple way to differentiate your nonprofit from the thousands of others looking for donations is to take advantage of nonprofit watchdogs.

What Is a Nonprofit Watchdog?

A nonprofit watchdog – also called a charity watchdog (CWD) or nonprofit evaluator – refers to a type of nonprofit organization that exists to gather and provide information, reviews, and ratings of other nonprofit organizations.

These organizations are not associated with the government, as each is an independent, nonprofit group of its own.

Although they're all included under the generic term "watchdog," each has a different purpose, mission, and function, and they can all have a different effect on your nonprofit's ability to fundraise.

The 4 Major Charity Watchdogs

Charity Navigator

The nonprofit watchdog, Charity Navigator has rated more than 160,000 nonprofit organizations around the world. In general, they look at nonprofits' financial health, transparency, and accountability to evaluate organizations and determine their ratings.

The Better Business Bureau

When evaluating a nonprofit, the Better Business Bureau assesses 20 separate charity standards. A nonprofit must satisfy each of these standards to receive a "Standards Met" rating. Failing just one point, results in a "Standards Not Met" rating.

GuideStar

Rather than rating nonprofits, GuideStar evaluates nonprofit organizations' individual commitments to transparency and then provides seals of approval at various levels.

GreatNonprofits

GreatNonprofits takes a slightly different approach with a Yelp-style, crowdsourced data strategy for acquiring information, ratings, and feedback on various nonprofit organizations.

GreatNonprofits offers a community of sorts where volunteers, clients, and donors can share and review their own experiences with nonprofit organizations.

How Can Charity Watchdogs Help Your Organization?

Although the term "charity watchdog" might sound a bit pejorative, these organizations can be a great boon to your fundraising efforts because they have a tremendous impact on the donor's perception of your nonprofit.

According to a survey of 3,861 randomly selected donors, Able Altruist found that the presence of a charity watchdog seal would greatly or moderately increase the likelihood of giving by 52% of donors. [1]

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Additionally, a staggering 84% said that the absence of a seal would reduce their giving potential [1].

Plus, a positive rating from even just one nonprofit watchdog organization can have a positive impact on your fundraising efforts [2].

Fundraising vs. Administrative Expense: Watchdog Guidelines for the Appropriate Allocation of Funds

One factor considered by watchdog organizations is the percent of revenue that nonprofits spend on overhead expenses.

While you might like to put every penny you receive right back into your mission, it is not possible to operate a successful, sound nonprofit without spending at least some of your revenue on administrative costs.

For example, you still need people to execute the mission and provide your services. Relying solely on volunteers can result in rapid turnover, a lack of reliability, operational discontinuity, and an organizational mission that suffers as a result.

Although nonprofits do not exist to generate a profit, executive directors still have to operate their organizations similarly to for-profit businesses in order to achieve stability, grow, and be successful in their missions. This means raising enough revenue to truly cover all of the costs associated with executing your mission – both direct costs and indirect costs.

That being said, you do not want to tarnish your reputation and rating among the charity watchdog organizations- and the % of revenue spent on overhead expenses is a major influence.

Generally, nonprofits are considered to be doing well and operating efficiently if the combined total of administrative costs and the costs associated with fundraising does not exceed 25% of revenue.

Properly Allocating Overhead Costs for a Positive Rating From Nonprofit Watchdog Groups

In any organization, labor costs are going to be high. In fact, they're usually one of the largest (if not the largest) overhead costs, and they can easily push your indirect costs beyond the acceptable 25%.

Not all of your labor costs, however, are truly indirect expenses, and they should not be categorized as such.

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For example, in reality, an executive director does not spend 100% of their time on administrative duties and fundraising tasks, nor does a development team. The people working in any nonprofit spend much of their time on donor education regarding the importance of the mission, its impact, the way in which donor dollars help deliver the nonprofit's mission, and how the mission improves people's lives and the community at large.

Amnesty International USA was able to reduce their fundraising and administrative expenses to just 18% – over the 80th percentile watchdog mark – using time tracking and labor cost allocation.

Most importantly, every minute of allocated labor expense was documented within the financial statements to document audit support that justifies the allocation and maintains complete regulatory compliance

For this reason, implementing an easy-to-use time tracking tool organization-wide and integrating it with your payroll and financial reporting system is essential. When implemented properly, these tools allow you to accurately allocate labor costs to ensure your overhead expenses fall within the range desired by nonprofit watchdogs and potential donors who are looking for your organization's positive ratings and seals of approval.

Plus, with the time-tracking data available to back up the allocation of a portion of your labor costs to direct expenses, you won't need to worry about a potential audit, either.

Maximize Outcomes And Fuel Your Mission With A Better Back office

By shoring up your back office, implementing time-tracking tools that all of your employees can use, and allocating your labor costs, you can make a significant dent in the rate of your nonprofit's overhead costs. As a result, you'll keep all of the charity watchdogs pleased and your donors happy to continue supporting your mission.

[1] July 2014 The Able Altruist newsletter survey of 3,861 randomly selected donors

[2] September 2014 study of 16,000 NPOs by Daniel Neely of University of Wisconsin-Milwaukee, WI & Erica E. Harris of Rutgers University – Camden, NJ