

Viewpoint

Evaluating Charities: The Better Business Bureau

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The expansion of the charitable sector over the past two decades has frequently been noted. Revenue Canada had about 35,000 registered charities on file in 1974, over 55,000 by 1986. While over half of these are religious organizations, that sector of charitable world is growing much less quickly than education, health, and other services to the community.

The results of this expansion have also attracted comment. Charities pursuing similar goals risk falling into unseemly public debates about “territory” that may harm all of them. People may wonder if the tax and legal advantages of charitable status should be accorded to so many organizations. (See David Baker’s article in (1991), 10 *Philanthrop.*, No. 1 at p.33.) Increased competition makes fund raising difficult for the established agencies and even harder for the newcomers. (See Ian McCuaig’s article in this issue at page 17.) The number and variety of charitable organizations also drains the resources of those who contribute to them: governments, foundations, corporations, and individuals.

Finally, the charities field becomes simply too confusing for people to keep track of it. Potential donors—and not just individual donors—and volunteers do not know who is doing what, and how well. In addition, a number of operations have taken advantage of the occasion to solicit funds by passing themselves off as charities, when their real aim was to enrich their operators.

As a result, many Canadians have felt a need for some kind of central clearinghouse of information, or a screening agency, to sort out the genuine from the fake and the well-run from the inefficient, and to make this information available to the public. The Devonian Foundation of Calgary thought of launching such a project, but as Revenue Canada did not consider this purpose charitable, it fell outside the Foundation’s mandate. (Diehl, *The Family That Gave It All Back*, at page 77—the book is reviewed in this issue at page 59.)

In 1989 the Better Business Bureau of Metropolitan Toronto established its Charities Review Board to provide just such a service. The BBB has for years run a rating service for businesses which the public can consult to find out whether a business is legitimate, and to which complaints about member

businesses can be addressed. The Charities Review Board was conceived as a variation on this function.

The BBB solicits information from charities by corresponding with them and providing a form for them to fill in. While it would no doubt be willing to accept information provided at the initiative of the charity itself, it has not, to my knowledge, made an open solicitation of such information. Based on the information thus gathered, it then assigns a rating to the charity. An A(i) rating is given to an organization that is a registered charity and whose status the BBB has no reason to doubt. An A(ii) rating is given to a genuine charity that occasionally uses a professional fund raiser whose costs show up in the financial statements. An A(iii) rating denotes a genuine charity that occasionally uses a promoter on commission whose expenses are not reflected in the financial statements. A B(i) rating is given to an organization whose information is incomplete; a B(ii) rating shows that the organization has refused to provide the BBB with information on request. Finally, a C rating warns of a for-profit business which “may be confused with a charitable organization”.

The information solicited from charities is detailed but rather mechanical. Besides copies of the T3010 Return to Revenue Canada and an annual report, the BBB wants to know the names of the chief operating officer and other officers and directors, along with any other boards on which they serve (past and present, for the chief officer). A description of the aims, services and facilities is requested. Respondents are asked about affiliation and financial commitment to a parent body. Figures for gross revenue and fund-raising expenses are sought in eight categories: donors, pledges, special campaigns, community funds, grants, bequests, memberships and “other” (including lotteries).

Relations with professional fund raisers fill a separate section of the questionnaire. The BBB wants to know the type of campaign run and the percentage of funds received by the charity. It also inquires about expenditures relating to administration; the categories listed would not show expenses incurred in carrying out a charitable program, except as “other”.

Perhaps the most interesting question is how the charity avoids duplication of effort with other charities that offer similar services.

The BBB can serve two purposes: to help people avoid fraudulent solicitations, and to provide guidance as to the quality of the operation of genuine charities. For the first task, it needs only a comprehensive set of responses to its questionnaire. In particular, it needs records on substantial numbers of genuine charities, so that it can refuse to give clean ratings to shady operations. Unfortunately, it is not clear that the BBB has enough information to furnish a reliable screen. In September 1991, it had no information on, for example, The National Ballet of Canada. One wonders if it has the capacity to process

sophisticated information on most of the charities in Toronto, even if its information gathering were more effective. Perhaps its business rating service would support such an operation. It is not clear either whether the BBB looks behind the possession of a charitable registration so as to detect the for-profit frauds.

It should be noted that during a test call, when the BBB employee did not have information on the charities mentioned, she did refer the caller to the Public Trustee's office and Revenue Canada, providing telephone numbers. This would offer some protection to the person seeking to avoid an outright fake.

For the second task—quality checks on real charities—the focus seems to be on raw financial data and the use of professional fund raisers. Some, at least, of the information solicited is available on public inquiry, e.g., the amount of expenses or the proportion of donations paid to fund raisers. However, none of the documents available indicates that the BBB has an informed understanding of how charities operate or the differences among them. Despite a good deal of correspondence and telephone contact between November 1989 and July 1991, I have been unable to get answers to a number of questions that seem relevant to their making an informed judgment on these points.

For example, has the BBB any criteria for rating charities other than financial efficiency? Can a church and a social program and a theatre be judged by the same criteria? How does one allocate expenses to administration and to program? Is the time and money that Meals on Wheels, for example, devotes to establishing a schedule of drivers, administration or service? Is the money paid to the person booking performance dates for a touring dance company, administration or program? What about rehearsal expenses?

For fund-raising expenses, does the BBB have different standards for a small group with a small staff, which may need greater administrative help from a professional fund raiser? Are there different standards for rating the percentage results of a large established organization and a new and obscure one? Does the BBB recognize that a flat fee may be a reasonable way for a new and relatively unknown organization to pay a fund raiser, but that the fee may turn out to be a high percentage of the proceeds? Are standards the same for capital campaigns, sustaining campaigns, or emergency appeals? Are they the same for different kinds of charity? Are professional fund raisers considered generically undesirable for some reason?

Who does decide how a charity gets listed with the BBB? What is done to solicit information? Can a charity appeal the BBB's rating somehow, or discuss inaccuracies that might appear? Can charities become members of the BBB, and if so, does the BBB deal with complaints about their conduct as it does with business members? Does it affect the rating if the charity is a member of the BBB?

What use is made of the answers to the question on duplication of services? Is the BBB's judgment of these answers reflected in any information released to the public? This would be a very interesting service, but very difficult to perform. If the answers to these questions are not available, why ask them?

Making raw data available without having weighed these questions may mislead the public more than help it and, at the same time, perform a disservice to the charities involved.

In conclusion, the BBB has acted to fill a real need in the community; however, it is not possible to conclude that the need is being properly filled. One would need more information than the BBB has been willing to make available to know if the BBB knows what it is doing. One suspects that organizations in the charitable sector are less alike than those in the business sector and less amenable to the making of financial generalizations, much less judgments of quality.

The BBB aims at more than just screening out the phoney charities, though doing that reliably would be a real service, especially if it could get information quickly. That job could be done with much less data from the charities, which might in turn make the job easier for the BBB and encourage more charities to submit their data. Taking the bigger step of quality control is much harder. So far we have little evidence that the BBB is competent to carry out this job in a way that helps the public or the charities which serve it.