

CONFIDENCE IN CHARITABLE ORGANIZATIONS, 2006

AUGUST 2006

PAUL C. LIGHT
 FOUNDING DIRECTOR, ORGANIZATIONAL PERFORMANCE INITIATIVE
 PAULETTE GODDARD PROFESSOR OF PUBLIC SERVICE
 ROBERT F. WAGNER GRADUATE SCHOOL
 NEW YORK UNIVERSITY

Summary

Five years after September 11th, confidence in charitable organizations has turned upward significantly. This conclusion comes from a national telephone survey of 1,000 randomly-selected adults interviewed in early to mid July 2006. The survey has a margin of error of plus-or-minus 3 percent and contains both good news and bad for the charitable sector:

1. According to the survey, which was conducted on behalf of the Wagner School’s Organizational Performance Initiative by Princeton Survey Research Associates International, 69 percent of Americans expressed a great deal or fair amount of confidence in the nation’s charitable organizations in July 2006, up from 64 percent the year before and 60 percent in September 2002. Although confidence has not returned to pre-September 11th levels, when 90 percent of Americans expressed a lot or some confidence in charitable organizations, the July 2006 survey suggests that confidence is on the rebound. (See Table 1 for the trend line.)

TABLE 1: OVERALL CONFIDENCE IN CHARITABLE ORGANIZATIONS, 2002-2006

	A great deal	A fair amount	Not too much	None
September 2002	13%	47%	26%	11%
August 2003	12	47	27	10
October 2003	18	45	27	7
January 2004	13	49	25	9
August 2004	15	50	25	7
July 2005	15	49	24	8
July 2006	20	49	20	9

*Percentages do not sum to 100 percent because respondents who answered “don’t know” or refused to answer are not included in the table.

2. Despite the rise in overall confidence between 2005 and 2006, Americans continue to have serious reservations about the performance of charitable organizations. Although 30 percent of Americans said charitable organizations do a very good job helping people, other measures of performance remained essentially unchanged between 2005 and 2006.
 - 18 percent of Americans said charitable organizations do a very good job running their programs and services, compared with 19 percent in 2005
 - 18 percent said charitable organizations do a very good job being fair in their decisions, compared with 16 percent in 2005
 - 11 percent said charitable organizations do a very good job spending money wisely, compared with 11 percent in 2005
 - 44 percent of Americans said the executive directors of charitable organizations are paid too much, a level of concern that remained essentially unchanged between 2005 and 2006
 - 71 percent of Americans said that charitable organizations waste a great deal or fair amount of money, up from 66 percent in 2005 and 60 percent in October 2003 when the question was first asked.

In short, even as overall confidence in charitable organizations increased, the underlying structure of public skepticism toward charities either remained unchanged or worsened, even among Americans with a great deal or fair amount of confidence. Asked which problem facing charitable organizations is bigger—the wrong priorities or spending money wisely—only 17 percent of Americans answered that charitable organizations have the wrong priorities, while 73 percent said charities have the right priorities, but do not spend money wisely.

Past research by the Organizational Performance Initiative suggests that the sector has reason to worry about confidence. Not only is confidence in charitable organizations strongly related to *discretionary* giving and volunteering, which refers to dollars and time given to organizations other than a respondent's religious institution or alma mater, the lack of confidence also creates a political climate that encourages regulation to control charitable excesses. Thus, charities should pay more attention to the underlying structure of skepticism rather than overall confidence.

The Recent History of Confidence

The upward movement in confidence may reflect a significant turning point as the nation nears the fifth anniversary of the September 11th attacks. According to surveys conducted both before and after September 11th, the percentage of Americans who expressed no confidence in charitable organizations increased significantly by the spring of 2002, even as the percentage who expressed a great deal of confidence dropped.

Prior to September 11th, confidence in charitable organizations had been both benign and soft. Most Americans gave the benefit of the doubt to charities, but had poorly formed

images of how these organizations operated. According to ongoing surveys by Independent Sector, which represents many of the nation's largest philanthropies and charitable organizations, the vast majority of Americans had either a lot or some confidence in charitable organizations in general, and most believed that these organizations contributed greatly to the overall quality of life in their communities.

However, the controversy surrounding disbursement of the September 11th relief funds changed the basic structure of opinion, in part because so many Americans had a personal stake in the controversy. By December 2001, roughly three quarters of Americans said they had donated money to one or more of the September 11th relief funds and/or given or tried to give blood to the Red Cross. At the same time, 60 percent of Americans also reported that they had been paying very or fairly close attention to stories about the controversies surrounding the disbursement of the relief funds to the victims of the attacks.

Even as the disbursement controversy waned, the charitable sector was rocked by other highly visible scandals involving the Catholic priesthood, the Nature Conservancy, the Capital Area United Way, Enron, WorldCom, and Martha Stewart. Although some of these scandals were completely unrelated to the charitable sector, they produced broad questions about the integrity of large and small organizations alike. It was as if the sector was made of Velcro—virtually every scandal in every sector stuck to the charitable sector and converted what had been benign, soft opinion into increasingly negative, hard attitudes about basic accountability. These doubts remain present to this day and have shown no signs of weakening.

The controversies clearly affected the charitable sector as a whole, and not just individual charities such as the Red Cross. In a sentence, confidence in charitable organizations fell sharply after September 2001 and has only recently begun to rebound. One survey does not make a broader trend, of course, but the July 2006 survey suggests that charitable confidence may have finally turned upward as memories of the post-September 11th controversies fade over time.

The Red Cross Effect

The boost in overall confidence toward charities may be all the more surprising because of the controversy surrounding the Red Cross response to Hurricane Katrina. Although the percentage of Americans who expressed not too much or no confidence in the Red Cross remained unchanged between July 2005 and July 2006, the percentage of Americans who expressed a great deal of confidence in the Red Cross fell 6 percentage points during the period. (See Table 2 for this comparison.)

TABLE 2: CONFIDENCE IN THE RED CROSS

	A great deal	A fair amount	Not too much	None
July 2005	46%	35%	11%	6%
July 2006	40	42	11	6

*Percentages do not sum to 100 percent because respondents who answered “don’t know” or refused to answer at all are not included in the table.

Some of this decrease was offset up by a 7 percentage point increase in those reporting that they had a fair amount of confidence in the Red Cross. Moreover, unpublished surveys conducted by the Red Cross immediately following Katrina and later in the winter and spring of 2006 suggest that the July 2006 level of confidence marks a significant rebound from the organization’s own surveys when public confidence in the organization had fallen precipitously. According to Red Cross internal surveys, the percentage of Americans who said the Red Cross was doing a good job and meeting expectations began to rebound in the late spring of 2006 with an aggressive public relations campaign designed to focus the media on more positive stories about local chapters and the services they provide.

Nevertheless, confidence in the Red Cross remains at risk, largely due to the pressing need for organizational capacity. Although it actually had the blueprints for organizational reform well before Katrina, it lacked the urgency to act. Instead, it allowed its organizational infrastructure to decay, leaving little reserve to respond to a super-disaster like Katrina.

As a result, its toll-free telephone center collapsed almost immediately after Katrina, which caused endless busy signals and national outcry. Its communication system failed, too, which created massive confusion in deploying volunteers and reconnecting families. Its accounting and computer systems were incapable of tracking the movement of cash and supplies in the hurricane zone, which encouraged at least some of the fraud now in the headlines. And its “caging system” for opening checks was unable to process contributions fast enough to cover its cash flow, which produced a \$350 million shortfall at the height of the crisis. Moreover, its volunteer base lacked the diversity to make connections with the disadvantaged population at risk. As I learned from unsolicited e-mails from Red Cross volunteers, many of the harshest comments about organizational performance came from disaffected volunteers who had traveled to the Gulf States only to find little opportunity to lend a helping hand.

This lack of administrative capacity is a familiar story among many of the nation’s charities. Charities are often reluctant to invest in their organizational infrastructure during good times and bad, especially when government and donors demand that every last dollar gets spent on mission. As Katrina shows, the lack of such investment all too often undermines performance. The Red Cross had plenty of heart during the crisis, but not enough administrative capacity.

The Red Cross may yet write a different story about rebuilding performance that could help other charities make the case for capacity. Having learned from its mistakes, it is now exploring partnerships that will improve the racial diversity of its delivery system,

outsourcing much of its supply chain to companies such as FedEx and UPS, toughening its quality assurance program, stockpiling one million cash cards for the next catastrophe, and building a computer system that can track everything from checks to food. It is also trying to change expectations about what it can and cannot deliver. Its job is to cover the first few days of a crisis, not replace the Federal Emergency Management Agency.

Although public relations has helped the organization recover—as measured by its own inventories of public memory of recent positive press—public relations is only as good as the performance that supports it. Absent actual changes in its performance during the current and future hurricane seasons, Red Cross support will fall again, and, with it, overall confidence in charitable organizations more generally.

Harbingers of Continued Stress

There is no evidence in this survey that Americans have returned to the halcyon days when they gave the benefit of the doubt to charitable organizations. Unfortunately, further analysis of the underlying structure of public confidence suggests that there are still significant doubts regarding the ability of charitable organizations to discharge their basic responsibilities.

The harbingers of continued stress are most notable among Americans with the highest levels of confidence in charitable organizations. It is no surprise that Americans who have little or no confidence might think that charitable organizations waste a great deal of money or do a poor job of spending money wisely. Nor is it any surprise that they would question the charitable sector's ability to help people, pay reasonable salaries, or be fair in its decisions.

But it is surprising that significant percentages of Americans who expressed a great deal or fair amount of confidence also saw glaring weaknesses in the sector:

- 81 percent of the Americans with a great deal or fair amount of confidence in charitable organizations said charities do only a somewhat good job or worse at spending money wisely
- 66 percent said charitable organizations waste a great deal or fair amount of money
- 58 percent said charitable organizations do only a somewhat good job or worse at being fair in their decisions
- 57 percent said charitable organizations do only a somewhat good job or worse at running their programs and services
- 39 percent said charitable organizations do only a somewhat good job or less at helping people
- 37 percent said the leaders of charitable organizations are paid too much
- 17 percent said charitable organizations have the wrong priorities

These attitudes reveal a residue of doubt that may fuel future declines in overall confidence in the wake of another national controversy such as Hurricane Katrina. Moreover, these

concerns about charitable performance appear to have affected donor expectations. Donors are not saying “show us the mission,” but “show us the impact.” And given their views of how charities deliver services, help people, make decisions, and spend money, it is no surprise that they would express their demand for impact through increased pressure to cut administrative costs.

This pressure underpins the kind of administrative disinvestment that contributed to problems at the Red Cross. Every donor believes in administrative capacity until they have to pay for it. Driven to make every dollar count toward the mission, donors often starve charitable organizations of needed overhead funds, which in turn creates the pressure to under-invest in the administrative structures and technologies that might generate more efficiency, greater effectiveness, and freedom to invest in new ideas, social entrepreneurial activities, nonprofit business ventures, and other forms of diversification. In a sense, charitable organizations are caught in a dilemma: They cannot generate the revenue to build strong administrative systems until they can prove they have strong administrative systems, which requires the revenues to build strong administrative systems.

Predicting Confidence

When subjected to advanced statistical analysis, confidence in the Red Cross is the most powerful predictor of confidence. Bluntly put, as the Red Cross goes, so goes the rest of the sector. The same might be said of the United Way, which is the second most powerful predictor of confidence.

However, once past the impact of confidence in these two brand-name charities, the most important predictors of confidence in charitable organizations are whether Americans believe that charitable organizations in general do a very good job running their programs and services, spending money wisely, and help people. In short, the fastest way to increased confidence is proving that charities are delivering on promises made.

Attitudes about waste and overpaid executives had absolutely no statistical impact on confidence in this advanced analysis—Americans may think the sector wastes money and overpays its executives, but these views may be more a product than a cause of confidence—the less confidence Americans have in charitable organizations, the more they think these organizations waste money and overpay their executives. However, further statistical analysis suggests that attitudes about waste and pay help shape impressions that charitable organizations do not spend money wisely, which is in turn a powerful predictor of confidence.

Thus, individual charities must be vigilant about showing the link between dollars and impacts and becoming more transparent about their administrative costs. This does not mean that they should adopt arbitrary caps on administrative expenditures, however. But they must be able to explain the impact of administrative costs on their ability to help people, deliver programs and services, be fair in decisions, and spend money wisely. This

means that their websites and other organizational information should always address the doubts that many Americans express regarding their organizational capacity.

Taking Confidence Seriously

As this analysis suggests, further investments in the ability of charitable organizations to deliver programs and services may be the most important approach to sustaining and increasing the recent gains in confidence. According to earlier research by the Organizational Performance Initiative, confidence is closely related to the willingness to donate and volunteer and clearly affects the political climate surrounding legislative and regulatory scrutiny. A public relations campaign cannot work without the evidence to support claims of high performance.

These investments in performance, while hard to generate, not only improve performance, they help charitable organizations make a stronger case that they are, indeed, helping people and delivering programs and services effectively. Charitable organizations do not need to do a better job showing the faces of the people they help—Americans already believe they have the right priorities. Rather, charities need to do a better job showing that they actually achieve their missions and produce measurable results. Such proof of success is virtually impossible to generate without the administrative backbone needed for increased transparency and accountability. As Katrina showed, heart is not enough. Charitable organizations must have the systems to make their hearts work effectively.