ACCOUNTABILITY STANDARDS FOR NONPROFIT ORGANIZATIONS: DO ORGANIZATIONS BENEFIT FROM CERTIFICATION PROGRAMS?

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ACCOUNTABILITY STANDARDS FOR NONPROFIT ORGANIZATIONS: DO ORGANIZATIONS BENEFIT FROM CERTIFICATION PROGRAMS?

ABSTRACT

Stakeholders are demanding nonprofit organizations (NPOs) continually improve themselves and work effectively while operating in an ever-changing environment. While there are many ways to approach this operational challenge, this paper examines the impact of acquiring an accountability certification, specifically the Standards for Excellence® Certification. Using a sample of 102 NPOs that have received the Standards for Excellence certification, we find that the certification is associated with increases in public support relative to a control group of nonprofits that did not receive the certification. These results suggest that some stakeholders favorably respond to the certification process, and NPOs can realize tangible benefits from becoming certified.

Keywords: nonprofit organizations, accountability, nonprofit certification

INTRODUCTION

Tremendous change is underway in nonprofit organizations (NPOs) today, and the operating environment has become challenging. Hackler and Saxton (2007) describe the current environment as one of "heightened scrutiny, greater demands, fewer resources and increased competition" (p. 474). NPOs continue to be confronted with a wide range of internal operational and external environmental obstacles. With issues such as threats to funding from government agencies, increasing demands to deliver more services, the pressure to keep pace with technological advances, and changes in demographics, public attitudes, and lifestyle, it is critical that board members, donors and staff think in new ways.

Many in the nonprofit sector are advocating that it is better to address the issues of accountability and credibility by having the sector develop their own effective means of self-regulation. Such uniform standards, offering entities an opportunity to be "certified" or "accredited", as a viable self-regulation alternative for the nonprofit sector, have been in place in every aspect of business for many years. The Standards for Excellence® program offers a set of monitoring and certification processes that is more comprehensive than any of the third party accountability groups. In addition, unlike the third party accountability groups, the Standards for Excellence certification process is elective and involves active participation from the certified nonprofit organization in the form of process improvements and self-assessments. Today, whether NPOs benefit from these certification processes remains an open empirical question.

This paper studies the impact of obtaining the Standards for Excellence certification in the nonprofit sector. In particular, we seek to answer the following question: What is the economic impact on funding/revenue if an organization is certified? To address the question, we measure the changes in funding before and after an organization gets certified. The results from our study suggest obtaining the Standards for Excellence certification results in an increase in public support, but not in other funding sources (i.e. government grants, and program revenues).

Overall, the results provide supporting evidence of the positive impact of the more comprehensive certification program offered by the Standards for Excellence Institute. The paper will discuss several reasons why examining the impact of this certification program differs from an examination of other ratings and rankings within the nonprofit sector and in prior research. Our findings should prove useful to stakeholders and researchers assessing the value of third party accountability certifications.

BACKGROUND INFORMATION

Certification Processes

The business process known as "certification" has generally been associated with the use of quality standards in for-profit manufacturing based firms with an emphasis on quality standards (i.e., ISO 9000 Certification). These companies traditionally pursue certification to accelerate their competitive position. Rao (1994) provides the context for this activity in organizations when he suggests that certification plays a critical role in generating legitimacy and a favorable reputation. The organization is directed towards efforts that improve quality and

excellence in all aspects of business operations.

Many NPOs are now seeking to adopt such practices as a means to improve their competitive position and enhance their ability to compete for a variety of resources (Slatten et al. 2011). Unlike the passive role nonprofits play when rated by Charity Navigator, or other third party accountability groups, a nonprofit seeking to be certified by the Standards for Excellence Institute presents written documentation substantiating compliance with standards and may participate in an on-site program evaluation by a trained observer that indicates the organization operates according to agreed-upon standards.

Standards for Excellence

The Standards for Excellence program certifies that organizations comply with eight guiding principles and over fifty standards relative to measuring success (see www.standardsforexcellenceinstitute.org for complete information on the Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector). These guiding principles require a comprehensive assessment of operations in the following areas of nonprofit governance and management: mission and program, governing body, conflict of interest, human resources (including volunteers), financial and legal, openness (or transparency) with the public, fundraising, and public affairs/public policy (including public education and public policy advocacy) (Maryland Association of Nonprofit Organizations, 2010). The standards provide detailed requirements for achieving certification under each of the eight guiding principles. Each application represents a significant investment of time and efforts from the applicant organization. Successful applications reportedly have required nine to twelve months to gather the extensive and requisite information regarding the organization's activities, management, and finances as outlined in the eight guiding principles.

The Standards for Excellence program was created in 1998 as a response to interest from organizations who were seeking to be more ethical, accountable and credible in the eyes of their stakeholders. The program was also developed as a means of self-regulation within the nonprofit sector with the goal of creating a system for well-managed and responsibly governed nonprofits to adopt and implement (Bailis and Sokatch, 2006).

Currently, the Standards for Excellence program exists in numerous states where the program is administered by a licensed partner. Licensed partners include state associations of NPOs, community-based management support organizations, and national nonprofits. The partners offer the program in various formats, with varying degrees of customization. One of the national partners has customized the program to comply with the Code of Canon Law. Some of the partners offer the certification program and some encourage the nonprofits they serve to participate in the Standards for Excellence Institute's certification program.

Each application is reviewed using a three-step process. First, initial review of the application is conducted by the staff at the offices of a Standards licensed or replication partner or at the national office to determine basic levels of compliance primarily regarding required application documentation. Next, the applications are distributed for individual review, evaluation and rating by members of a (typically three person) Peer Review Team. Members of

the Peer Review Team are nonprofit professionals or board members with at least three years of working experience with a NPO in a position of responsibility. After each member of the team has conducted their review, the team meets to engage in a group comprehensive review. Then peer reviewers make final recommendations regarding whether or not an organization should be awarded the Seal of Excellence. Finally, the team recommendations are submitted to a higher level Standards Committee where the assessment and conclusions reached by the peer review teams are voted on and the final decisions for awarding the Seal of Excellence are determined (Maryland Association of Nonprofit Organizations, 2010).

Those organizations successful in meeting the standards are awarded the Seal of Excellence - a type of "Good Housekeeping Seal" of approval (Maryland Association of Nonprofit Organizations, 2010). The program allows those who demonstrate adherence to the Standards the opportunity to display the seal indicating to stakeholders the importance of professional management, strategic planning, on-going program evaluation and assessment, and sound financial management. The Seal of Excellence is awarded for a three year period. After the initial three year licensing period, organizations may apply to be recertified every five years. Licensing fees are collected by the Standards licensed or replication partner and typically are determined using a sliding scale based on the organization's budget size (see more details in Slatten et al., 2011).

The analyses that follow assess the impact the Standards for Excellence certification has on stakeholders.

RESEARCH DESIGN

Multivariate Models

We estimate the following difference-in-difference model to examine the impact of the certification process:

$$\begin{aligned} &Fundsource \\ &= \alpha_0 + \alpha_1 Certification\ Year\ (or\ Post\ Certification\ Year) + \alpha_2 Certified + \\ &\alpha_3 Certified*Certification\ Year\ (or\ Post\ Certification\ Year) + \alpha_4 Total\ Assets + \\ &\alpha_5 Compensation + \alpha_6 Fundraising\ Expenses + \alpha_7 Price + Industry + State + \varepsilon \end{aligned}$$

Fundsource refers to total revenue, public support, government grant, and program revenue respectively. Public support, government grant, and program revenue are subsets of total revenue. We first estimate the model by comparing the application year with certification year and then estimate the model by comparing the application year with the post certification year. The application year is estimated as three years before certification.[1] The certification year is the year in which a sample organization is certified. The post certification year is the year after a sample organization receives its certification. The variable *Certified* is an indicator variable that equals to one if the organization is certified and zero otherwise. The variable of interest is the interaction term *Certified*Certification Year (or Post Certification Year).* We

[1] The Standards for Excellence institute does not systematically collect the application date for each organization. However, for the average nonprofit, they felt three years before the certification year was a good approximation of the commencement of the application process.

hypothesize a positive relation between the interaction term *Certified*Certification Year (or Post Certification Year)* and our dependent variables based on our discussion in earlier sections.

Consistent with more recent extensions of the economic model of giving (Gorden et al., 2009; Jacobs and Marudas, 2009; Tinkelman and Neely, 2011), we control for size and management compensation: *Total Assets*, measured as total end-of-year assets; *Compensation*, the total reported compensation of current officers, directors, trustees, and key employee.

Following Weisbrod and Dominguez's (1986) economic model of giving, we include *Fundraising Expenses*, and *Price*, defined as the inverse of the ratio of program expense to total expense in the model. The variable *Price* takes into account that organizations can devote resources to programs only after expenditures are made on fundraising and general administration: for example, in an organization that devotes twenty percent of expenses to fundraising and administration, leaving eighty percent for program expenses, the price for the donor to buy $1 of output is $1.25.

We also include *Industry*, a series of indicator variables for The National Taxonomy of Exempt Entities (NTEE) codes, to control for industry. To control for the legal and governance environment in which an organization operates, we use *State*, a series of indicator variables for the state in which an organization operates.

Sample Selection

The initial sample is drawn from all NPOs that received the Standards for Excellence certification. We obtained the list directly from the Standards for Excellence certification manager on June 13, 2011. The list included 218 NPOs that have received the certification since the program began. We next merged the list with financial information that we obtained from GuideStar. We then dropped two NPOs from the sample: one NPO changed its fiscal year-end during our study period; the other is a private foundation. We identified a control NPO for each sample NPO in the same industry using total revenue in the application year. This resulted in 156 pairs of NPOs. However, due to missing financial information, the final number of pairs of NPOs is reduced to 102. Table 1 provides details on the sample selection procedure.

TABLE 1: SAMPLE SELECTION

NPOs that received the certification as of June 13, 2011	218
LESS:	
NPOs that were certified between 2010 and 2011 *(Beyond the study period)*	17
NPOs have changed fiscal year-end	1
NPOs are private foundations	1
NPOs do not have control organizations	24
NPOs have missing financial data	54
Final Sample	102

The sample NPOs were certified starting in 2001 with the most recent certifications occurring in 2009 (Table 2 Panel A). Our sample of certifying organizations began with six organizations in 2001 and gradually built to an average of approximately 15 per year, starting in 2004 (Table 2 Panel A). Table 2 Panel B shows that the sample NPOs are highly (54 percent of the sample) concentrated in the Human Service sector. The sample organizations are geographically concentrated in six states with four states, Louisiana, Maryland, Ohio, and Pennsylvania, representing all but two of the organizations (Table 2 Panel B). The next section discusses the findings.

TABLE 2: FREQUNCIES OF SAMPLE BY SECTOR, YEAR, AND STATE

PANEL A: FREQUENCY BY SECTOR AND YEAR OF CERTIFICATION

NTEE	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Arts	0	0	2	0	0	2	0	1	1	6
Education	0	0	0	0	0	0	2	2	0	4
Environment	0	0	0	0	0	1	0	0	1	2
Health	1	0	0	1	4	5	3	2	2	18
Human Services	5	0	4	12	5	8	7	5	9	55
Public Benefit	0	0	0	3	3	3	2	3	1	15
Religion-Related	0	0	0	0	1	0	0	0	0	1
Unknown	0	0	0	0	0	0	0	0	1	1
Total	6	0	6	16	13	19	14	13	15	102

PANEL B: FREQUENCY BY SECTOR AND STATE OF LOCATION

NTEE	IL	LA	MD	OH	PA	WA	Total
Arts	0	0	3	3	0	0	6
Education	0	0	1	1	2	0	4
Environment	0	0	2	0	0	0	2
Health	0	2	5	4	7	0	18

Human Services	1	6	28	6	14	0	55
Public Benefit	0	3	2	5	4	1	15
Religion-Related	0	0	1	0	0	0	1
Unknown	0	0	0	1	0	0	1
Total	1	11	42	20	27	1	102

RESULTS

Descriptive Statistics

We use a matching process to identify control NPOs from the NPOs in the IRS Statistic of Income (SOI) database of the National Center for Charitable Statistics (NCCS) that have not received certification but have necessary financial data for four consecutive years of data in our study period as our control group. Each matched control NPO has the closest total revenue to the total revenue of each sample NPO in the application year within the same state. Table 3 Panel A reports the median values of the sample and control groups in the application year and the certification year. We utilize the Wilcoxon rank sum test to determine whether the differences in the median values of the sample and control groups are statistically significant. A nonparametric method such as the Wilcoxon rank sum test is better suited for data that is not normally distributed (as is the case with our sample) compared to the traditional parametric t-test (Whitley and Ball, 2002).

Total revenue in the sample NPO increases from the application year to the certification (though the increase is insignificant), while total revenue in the control group decreases during the same period. This contrast leads to a significant difference in differences in total revenue, suggesting that the sample NPOs, compared to the control NPOs, experience a significant increase in total revenue from the application year to the certification year. Similarly, public support in the sample NPOs increases from the application year to the certification year (though the increase is insignificant), while public support in the control NPOs decreases during the same period. The contrast leads to a significant difference in differences in public support, suggesting that the sample NPOs experience a significant increase in public support from the application year to the certification year, compared to the control NPOs. Compensation significantly increases from the application year to the certification year in the sample NPOs, but not in the control NPOs. One explanation for the increase in compensation in the sample NPOs is that achieving the certification led to an increase in compensation to the officers (compensation of officers, directors, trustees, key employees, and highest compensated employees was used as a proxy for staff evaluation for the purposes of this research). However, several alternative explanations for such an increase are: the NPO adds more management staff due to the certification process; salaries increase overall; the management gets more bonuses as public support increases. There are no significant differences in government grant, program revenue, fundraising expense, and price between the application year and the certification year for the sample and in the difference in differences between the sample and control groups.

TABLE 3: ANALYSIS OF THE SAMPLE AND CONTROL GROUP

PANEL A - ANALYSIS OF THE SAMPLE APPLICATION YEAR VS. CERTIFICATION YEAR

	Sample[A]		Control[A]		Difference	Difference	Difference in Differences
Variable	Application Yr	Certification Yr	Application Yr	Certification Yr	[(2)-(1)]	[(4)-(3)]	[(5)-(6)]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Total Revenue	2,894,648	3,521,396	2,769,160	2,617,582	NS	NS	*
	(6,934,183)	(8,720,981)	(10,600,000)	(11,900,000)			
Public Support	286,589	323,754	74,095	46,208	NS	NS	**
	(3,284,439)	(5,324,852)	(1,818,823)	(1,454,842)			
Government Grant	595,406	339,607	0	0	NS	NS	NS
	(3,381,239)	(3,757,639)	(7,560,838)	(6,342,467)			
Program Revenue	104,223	330,190	409,362	570,599	NS	NS	NS
	(4,162,701)	(4,953,405)	(7,549,957)	(10,100,000)			
Total Assets	2,656,307	3,492,263	3,621,239	4,676,819	NS	NS	NS
	(10,100,000)	(13,500,000)	(33,400,000)	(38,500,000)			
Compensation	76,152	111,088	68,931	97,305	***	NS	***
	(144,346)	(192,373)	(171,042)	(210,315)			
Fundraising Expense	47,440	68,119	0	0	NS	NS	NS
	(764,215)	(603,910)	(258,664)	(413,519)			
Price	1.17	1.16	1.15	1.16	NS	NS	NS
	(0.16)	(0.11)	(0.84)	(1.20)			
Sample Size:	102	102	102	102			

Notes: All variables defined in the Appendix. Median values are reported with standard deviation in parenthesis. ***, **, * denote statistical significance at the 1%, 5%, and 10% levels respectively. NS signifies a difference is not significant. The z-statistic is the reported test statistic for test of differences.

[A] The application year represents the period three years before the certification year. Three years is the estimated time to complete the certification process per the Standards for Excellence Institute. The control group represents the best match of organizations not receiving the

certification to an organization receiving the certification based on the same NTEE code and closest to total assets in the application year.

PANEL B - ANALYSIS OF THE SAMPLE APPLICATION YEAR VS. POST-CERTIFICATION YEARR

Variable	Sample[A]		Control[A]		Difference	Difference	Difference in Differences
	Application Yr	Post Certification Yr	Application Yr	Post Certification Yr	[(2)-(1)]	[(4)-(3)]	[(5)-(6)]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Total Revenue	2,894,648	3,585,396	2,769,160	2,763,542	*	NS	***
	(6,934,183)	(8,395,663)	(10,600,000)	(13,500,000)			
Public Support	286,589	299,541	74,095	30,395	NS	NS	**
	(3,284,439)	(3,697,293)	(1,818,823)	(2,012,575)			
Government Grant	595,406	492,274	0	0	NS	NS	**
	(3,381,239)	(2,951,636)	(7,560,838)	(7,005,200)			
Program Revenue	104,223	306,781	409,362	623,654	NS	NS	NS
	(4,162,701)	(6,491,137)	(7,549,957)	(10,900,000)			
Total Assets	2,656,307	3,822,653	3,621,239	4,567,517	*	NS	NS
	(10,100,000)	(12,400,000)	(33,400,000)	(41,800,000)			
Compensation	76,152	125,908	68,931	99,918	***	NS	***
	(144,346)	(160,736)	(171,042)	(210,553)			
Fundraising Expense	47,440	70,981	0	0	NS	NS	NS
	(764,215)	(506,875)	(258,664)	(388,637)			
Price	1.17	1.15	1.15	1.17	NS	NS	NS
	(0.16)	(0.16)	(0.84)	(1.44)			
Sample Size:	102	102	102	102			

Notes: All variables defined in the Appendix. Median values are reported with standard deviation in parenthesis. ***, **, * denote statistical significance at the 1%, 5%, and 10% levels respectively. NS signifies a difference is not significant. The z-statistic is the reported test statistic for test of differences.

[A] The application year represents the period three years before the certification year. Three years is the estimated time to complete the certification process per the Standards for Excellence Institute. The control group represents the best match of organizations not receiving the certification to an organization receiving the certification based on the same NTEE code and closest to total assets in the application year.

Panel B reports the median values of the sample and control groups in the application and the post certification year. Similar to the results in Panel A, total revenue and public support in the sample NPOs increase from the application year to the post certification year, while total revenue and public support decline in the control NPOs over the same period. The sample NPOs report a significantly larger increase in public support, consistent with our expectation that obtaining the certification will lead to an increase in public support from donors. Government grant decreases in the sample NPOs from the application year to the post certification year (though the decrease is statistically insignificant), while the median value for the control group remains at zero through the same period. Total assets in the sample NPOs significantly increases from the application year to the post certification year, however, there is no significant difference in the differences between the sample and control groups. Total revenue in the sample NPOs significantly increases from the application year to the post certification year, and the magnitude of increase is significantly larger than that in the control NPOs. This is consistent with the certification helping the sample NPOs to improve their ability to earn more revenue. Similar to the results in Panel A, Compensation significantly increases from the application year to the certification year in the sample NPOs, but not in the control NPOs. We posit that similar factors mentioned in the discussion for Panel A contribute to the increase in compensation in the sample NPOs. There are no significant differences in fundraising expense and price between the application year and the certification year for the sample and in the difference in differences between the sample NPOs and control groups.

Overall, the results from univariate analyses suggest that stakeholders respond positively to an organization obtaining the certification, and the certification process appears to bring economic benefits to the sample NPOs.

Multivariate Results

As stated earlier, the thrust of our analysis revolves around the question whether the Standards for Excellence certification is associated with an increase in revenue from stakeholders. We utilize multivariate analyses to further investigate the above question.

Table 4 presents the OLS regression results by funding source, comparing the application year with certification year. The four columns of Table 4 show the results from estimates using *Total revenue*, *Public support*, *Government grant*, and *Program revenue* as dependent variables respectively. The coefficient of the interaction term *Certified*Certification Year* for the specification *Public support* is significantly positive. The results suggest that public support in the sample NPOs, compared to the control NPOs, is significantly higher in the certification year than in the application year. This indicates receiving certification helps sample NPOs to obtain more public support from donors, showing positive reaction from donors toward certification. However, the coefficients of *Certified*Certification Year* in other specifications are insignificant.

Table 4: OLS Regression Models by Funding Source: Application Year to Certification Year

	(1) Total Revenue	(2) Public Support	(3) Government Grant	(4) Program Revenue
Certification Year	-0.004	-0.051	0.003	0.024
Certified	0.061	0.071	-0.010	0.061
Certified * Certification Year	0.034	0.115*	0.011	-0.020
Total Assets	0.525***	0.276*	-0.061*	0.461***
Compensation	0.168**	-0.019	0.030	0.234***
Fundraising Expense	0.055**	0.524***	-0.033***	-0.166***
Price	0.147**	-0.110**	-0.027	0.340***
Public Benefit	0.033	-0.139	0.125***	0.077**
Health	0.105	-0.263	0.111***	0.233***
Human Services	0.152*	-0.300	0.215***	0.196***
Arts	-0.107**	-0.142	0.022	-0.083*
Education	0.036	-0.043	0.028	0.070*
Environment	-0.016	-0.083	0.002	0.018
N	408	408	408	408
adj. R^2	40.1%	39.9%	-0.019	49.6%

Standardized beta coefficients

Note: Variables Defined in the Appendix. State variables in the model represent indicator variables for the organization's state of location. ***, **, * denote statistical significance at the 1%, 5%, and 10% levels respectively.

For the control variables, the coefficient of the variable *Total Assets* is significantly positive in three specifications except for the specification *Government Grant*. It is not surprising because the bigger the NPO is, the more likely the NPO will attract more resources. Compensation is positively associated with total revenue and program revenue. The significantly positive coefficient of the variable *Fundraising* indicates that fundraising expense helps to boost donations that an NPO receives, consistent with Weisbrod and Dominguez's (1986). In contrast, the coefficients of *Fundraising Expenses* are significantly negative in the government grant and program revenue specifications. This reflects the crowding-out effect between the donations and government grants and self-generated revenue because fundraising expenses incur mainly to obtain more donations. The variable *Price* has a significantly negative coefficient in the specification public support, consistent with Weisbrod and Dominguez's (1986) that the price of donations is negatively correlated with donations that an NPO receives; however, it has significantly positive coefficients in the specifications total revenue and program revenue, perhaps due to the crowd-out effect. We include the industry and state fixed effect control variables as additional controls to mitigate the influence that the state or nonprofit sub sector has on NPOs' funding sources.

Table 5 presents the OLS regression results by funding source, comparing the application year with the post certification year. The coefficients of the interaction term *Certified*Post Certification Year* for the specifications *Total revenue*, *Public support*, *Government Grant* and *Program Revenue* are positive but insignificant, suggesting that there are no significant increase in these funding source for the certified NPOs in the post certification year compared to the application year. The results for other variables in the model (including the industry and state indicator variables) are similar to those shown in Table 4.

Table 5: OLS Regression Models by Funding Source: Application Year to Post Certification Year

	(1) Total Revenue	(2) Public Support	(3) Government Grant	(4) Program Revenue
Post Certification Year	-0.013	-0.040	0.001	0.008
Certified	0.047	0.046	-0.012	0.051
Certified * Post Certification Year	0.034	0.074	-0.006	0.018
Total Assets	0.450***	0.192**	-0.091***	0.393***
Compensation	0.238***	0.027	0.081***	0.237***
Fundraising Expense	0.066***	0.653***	-0.035**	-0.152***
Price	0.225***	-0.092**	-0.008	0.408***
Public Benefit	0.039	-0.122	0.115***	0.083**
Health	0.108*	-0.264	0.099***	0.222***
Human Services	0.158**	-0.295	0.192***	0.205***
Arts	-0.100**	-0.132	0.016	-0.069
Education	0.006	-0.178	0.027	0.080**
Environment	-0.021	-0.093	-0.006	0.015
N	408	408	408	408
adj. R^2	0.430	0.520	-0.015	0.502

Standardized beta coefficients

Note: Variables Defined in the Appendix. State variables in the model represent indicator variables for the organization's state of location. ***, **, * denote statistical significance at the 1%, 5%, and 10% levels respectively.

CONCLUSION

Prior studies have documented that third party accountability organizations provide incremental information useful to at least some stakeholders (Gorden et al., 2009; Sloan, 2009; Chen, 2009). However, the previous studies considered certifiers/raters that were passive in nature and relied on information reported by the charitable organization to determine the rating of the organization. The Standards for Excellence Institute engages the nonprofit organizations in a rigorous application process that includes training at the staff and board level to ensure all standards are met prior to receiving the Standards for Excellence certification (see www.standardsforexcellenceinstitute.org for complete information on the Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector).

We expect that stakeholders will react positively to organizations receiving the Standards for Excellence certification by allocating more resources to the newly certified nonprofit. Consistent with this expectation, we find that the certified NPOs have larger increases in public support in the certification year than in the application year. However, the increase does not persist through the post certification year. Overall, our findings provide some evidence that certified organizations have displayed benefits of receiving the certification, and donors appear to respond favorably to the certification.

Our study is not without limitations. While we have attempted to control for factors that may have contributed to our findings, it is not feasible to perfectly tease out all alternative explanations for our findings. For example, it is possible that our sample has a more talented managerial team than our control group, and incremental performance improvements are a result of managerial efforts independent of the certification process.

In addition, data constraints limited our inferences to one year after the certification year, and restricted our findings to measurable outputs. To the extent that the Standards for Excellence certification process leads to immeasurable benefits, or measurable benefits that accrue beyond one year after the certification year, we may have underestimated the benefits of the certification.

Notwithstanding the limitations of the study, the findings from this study should inform the debate on the utility of third party accountability certifications. Specifically, moving beyond standards of accountability that are passive in nature and heavily reliant on questionable measures of performance can lead to improved usefulness of third party accountability standards. Third party accountability standards that involve training organizational personnel on nonprofit best practices have the potential to elevate the performance of the nonprofit sector with positive tangible benefits, including more resources spent on programs and additional resources flowing into the sector.

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APPENDIX: VARIABLE DEFINITIONS

VARIABLE NAME	VARIABLE DEFINITION
Total Revenue	The total reported revenue. Part I line 12 (pre 2008) or part I line 12 current year (post 2008).
Public Support	The sum of indirect public support (part I line 1c) and direct public support (part I line 1b). For Form 990 years beginning in 2008, public support is defined as the value of "All other contributions, gifts, grants, and similar amounts not included above" (part VIII line 1f).
Government Grant	The total reported for government grant. Part I line 1d (pre 2008) or part VIII line 1e (post 2008).
Program Revenue	The total reported for program service revenue. Part I line 2 (pre 2008) or part I line 9 (post 2008).
Total Assets	End of the year total assets. Part IV line 5a (pre 2008) or part X line 16 (post 2008).
Compensation	The total reported for compensation of current officers, directors, trustees, and key employees. Part II line 25a (pre 2008) or part IX line 5a (post 2008).
Fundraising Expense	Total fundraising expenses. Part I line 15 (pre 2008) or part IX line 25 column D (post 2008).
Price	Inverse of the ratio of program expenses to total expenses.
Arts	One if the national taxonomy of exempt organizations code is A, 0 otherwise.
Education	One if the national taxonomy of exempt organizations code is B, 0 otherwise.
Environment	One if the national taxonomy of exempt organizations code is C or D, 0 otherwise.
Health	One if the national taxonomy of exempt organizations code is E, F, G, or H, 0 otherwise.
Human Services	One if the national taxonomy of exempt organizations code is I, J, K, L, M, N, O, or P, 0 otherwise.
Public Benefit	One if the national taxonomy of exempt organizations code is R, S, T, U, V, or W, 0 otherwise.
Religion-Related	One if the national taxonomy of exempt organizations code is X, 0 otherwise.
Unknown	One if the national taxonomy of exempt organizations code is Z, 0 otherwise.

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