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Playing the Ratings Game: The Significance of the Four Star Rating

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This study examines a group of exemplary rated nonprofits, organizations rated four stars by Charity Navigator, to determine if this select group of charities exhibits characteristics associated with top charitable organizations, or if the four-star rating achieved is limited to the more narrow financial metrics employed in the methodology utilized by Charity Navigator. Organizations rated four stars by Charity Navigator report a lower level of excess cash holdings, report lower levels of executive compensation and executive compensation that is less sensitive to performance, and are less financially vulnerable than their lower rated peers. The results shed light on the continuing debate of the effectiveness of the rating agencies to accurately identify top performing charitable organizations.