

Chapter 1: Introduction

A Vital Part of Canadian Society

Nonprofit and voluntary sector organizations are a vital part of every community. They provide a wide range of essential services and programs that touch virtually all aspects of our society – social justice, human rights, the environment, health, faith, arts and culture. They play a critical role in promoting active citizenship, supporting economic and community development, and advocating on behalf of diverse communities and causes – thereby establishing the connections among citizens, communities and governments that build social capital and sustain democracy.

Yet up until 10 years ago, there was little awareness about this sector, or even a vocabulary to describe it. While governments and communities have for many years relied upon nonprofit and voluntary sector groups to deliver a wide range of programs and community supports, these groups have often been taken for granted. Indeed, there continues to be little information about who they are, what they do, and what difference they make in the lives of Canadians.

Today, there is a growing consciousness of the nonprofit and voluntary sector. In June 2000, the federal government committed \$94.6 million over five years to strengthen its relationship with the sector, to enhance the capacity of nonprofit and voluntary organizations, and improve regulations and legislation governing the sector. Under the auspices of the Voluntary Sector Initiative (VSI), the federal government is continuing to work with sector representatives to develop and implement needed reforms.

Similar initiatives have been launched at the provincial level, most notably in British Columbia and Newfoundland. Formal partnership between a province and the sector is most advanced in Quebec, where a Secretariat for Autonomous Community Action (SACA) has been created, directly attached to the Executive Council office. The Quebec community sector participates at government-convened socio-economic summits on the same basis as business and labour organizations. A system of grants has been set up to assist in the building of formal partnerships between Quebec government departments and nonprofit and voluntary organizations, including support for the delivery of a wide range of social services by nonprofits (White, 2001).

This new-found awareness can be traced back to at least two key trends. First, the call to “reinvent” government in Canada and elsewhere has fuelled an ongoing debate about the role of government in Canada and need for alternative forms of service delivery and partnership (see Osborne and Gaebler, 1993). Voluntary and nonprofit organizations are seen as central to a renewed public administration and a more “participatory” civic culture. At the same time, a decade of growing economic and social tensions – represented most graphically in the growing polarization between the rich and poor in Canada – has spurred concerns about social solidarity and the ties that bind us. A spotlight has been focused on the nonprofit and voluntary sector as the space where Canadian citizens come together to promote the common good, at a time when engaging in the community has never been more important.

While there seems to be an historic opportunity to expand the role of the sector in Canadian society, new demands and expectations on nonprofit and voluntary organizations have not been matched by commensurate fiscal or human resources. Through the 1990s, governments across Canada – the largest funder of the sector – significantly reduced public transfers and supports for nonprofit and voluntary organizations in efforts to balance the public books. This combination of increasing demands for service and reduced financial support has severely strained the capacity of nonprofit and voluntary organizations to pursue their mandates. Valued organizations have closed their doors, while others have cut back on their programs and activities. At the same time, many now fear that established boundaries between the nonprofit and voluntary sector and the state and the private market are breaking down. The unique contribution of the nonprofit and voluntary sector is being threatened by a funding environment in which nonprofit organizations are forced to compete in the funding marketplace, while funders such as governments exert greater control over the activities.

These concerns about the capacity of organizations to pursue and sustain their goals and activities within the context of a changing social, political and economic environment have prompted the current study. Specifically, this study is concerned with the impact of the changing funding practices on the operations of nonprofit and voluntary organizations and the place these organizations and the voluntary sector more broadly hold in society. Nowhere is the contradiction between rhetoric and reality more stark for nonprofit and voluntary organizations than in their pursuit of financial security. Organizations draw on many resources and relationships to define and carry out their missions, yet funding is a key dimension in their capacity to act. The energy and passion of volunteers, the reputation of the organizations within the community and among beneficiaries, the quality of management and governance structure all depend – at least in part – on the ability of organizations to secure the resources necessary to pursue their mission over the short and longer term.

Both the level and structure of funding and support available to the nonprofit and voluntary sector have been highlighted as key concerns. The shift away from core funding to project-driven, contract funding, the pursuit of commercial activity, and pressures from funders to adopt results-based management are three key trends signaling dramatic change in the sector (Rekart, 1993; McFarlane and Roach, 1999). This current study has been designed to probe the wider impacts of these changes for the beneficiaries and members of nonprofit voluntary organizations, the communities within which they operate, as well as for the organizations themselves. This study is also concerned with the consequences for the character and role of the nonprofit and voluntary sector and the relationship between the sector, the state, and the market.

Our Project

Our primary objective is to study the impact of changing funding sources and mechanisms on the financial capacity and long-term sustainability of nonprofit and voluntary organizations in Canada. To this end, the goals of this study are the following:

- to document the range of sources and mechanisms of funding for nonprofit and voluntary organizations;
- to identify changing funding trends and practices across Canada over the past decade; and
- to document and analyze the impacts of new funding trends and practices on nonprofit and voluntary organizations from a wide range of sectors, particularly as they affect the capacity of organizations to pursue their missions and achieve sustainability.

To do so, we developed a four-pronged research strategy to explore the links between the funding trends and practices and the capacity of nonprofit voluntary organizations to pursue their missions. We gathered information through:

- a literature review of Canadian and international sources;
- key informant interviews and roundtable discussions with funders;
- 11 focus groups involving more than 100 organizations across the country;
- a detailed survey of nonprofit and voluntary organizations drawn from our focus group sample; and
- in-depth case studies.

While there are obvious limits to any research strategy, we believe that the combination of focus groups, expert interviews, and case studies, along with a written questionnaire providing extensive information on the financial capacity of these groups, produces a powerful portrait of a sector struggling with change. The mix of qualitative and quantitative approaches has allowed us not only to document, in detail, the changing funding trends and practices, but also to capture the complex and often contradictory impacts of these changes on nonprofit and voluntary organizations and their responses. A detailed description of our methodology is provided in Appendix A.

In Appendix B, we provide a brief overview of research on the voluntary and nonprofit sector in Canada and assemble a portrait of the sector from a variety of sources. However, a key point to be made is how little research has been done until recently on the sector and its capacity to meet mission. In an overview, McKechnie, Newton and Hall conclude that existing voluntary sector research is relatively new, atheoretical and focused on only a small number of topic areas (McKechnie et al., 2000: 25) Consequently, there are large gaps in our knowledge that demand attention. Some of the most obvious gaps in the literature “pertain to the funding of voluntary sector organizations and capacity issues” (Ibid).

The fact that the sector has not received much attention in Canada speaks to a rather unusual question for a project like this – how to label the subject of our study. Many labels are used to describe organizations that are positioned between the market and the state, including the third sector, civil society, social economy, non-governmental sector, and the commons. In Canada, the “voluntary sector” is used most often by governments. The use of “voluntary” highlights the importance of the contribution of volunteers to organizations and their communities. It portrays the sector in a positive and active light, while emphasizing the values that guide the sector. The term “nonprofit” refers to the prohibition against distributing profits to shareholders and it is also used by many. It is arguably the broadest term in use,

capturing a diverse array of organizations, ranging from self-help networks to labour unions to orchestras.

The difficulty in choosing just one label is that many organizations that one might consider to be a part of the sector do not always identify with that specific label. The label “voluntary” is a case in point. Many voluntary groups rely extensively on paid staff and are not comfortable with a label that exclusively focuses on the voluntary dimension of their work. Others believe that the term “nonprofit” defines the sector by what it is not – in this case, profit distributing. After reviewing these debates, we have elected to use the term “nonprofit and voluntary” to describe organizations positioned between the market and the state. This term highlights two essential features of such organizations. As well, it is our hope that a broader range of organizations will be comfortable with this label than would be the case if we selected a single descriptor.

Because of the diversity of voluntary and nonprofit organizations within the sector, we had to create a specific focus for the purposes of this study. We concentrated on what have been called “public benefit organizations” that exist primarily to serve others and contribute to the general welfare (Salamon, 1995). This approach excluded member-serving organizations, such as professional groups, consumer groups, unions and cooperatives that are primarily organized to pursue the interests of their members and are funded through membership fees. Religious organizations were also excluded from this study. Organizations such as the United Way and public and private philanthropic foundations were consulted as funders, rather than as members of the nonprofit and voluntary sector.

Hospitals and universities were also excluded from our study on the basis that they are largely controlled by governments. They are also by far the largest nonprofit and voluntary sector organizations in the sector, certainly in terms of funding. For example, 80% of charities reported revenues under \$250,000 in 1995, while only 7% of them – including hospitals and universities – reported revenues of over \$1 million (Dreessen, 2000), so the very size of these nonprofit and voluntary organizations would have skewed the analysis of funding trends and practices. Certainly, the experiences of hospitals and universities struggling with the changing funding environment are quite different from those of smaller, community-based organizations.

The nonprofit and voluntary sector organizations that contributed their views to this study tended to be incorporated, including those with and without charitable status. They had an institutional presence, usually locally or regionally, but in some cases nationally. Thus, our study does not capture the experiences of wholly “voluntary” groups. Lastly, the areas of activity in which these organizations pursue the public good can be categorized under the following general headings: social services, community benefit, environment, arts and culture, health, ethnocultural activities, and recreation and sport.

This report is organized into three main sections. Part I includes this introduction and a discussion of key definitions and concepts. In Part II, we describe Canada’s new funding regime and analyze the effects of changing funding trends and practices on the operations of nonprofit and voluntary organizations. We

present our findings regarding the financial capacity of organizations struggling with change, and what organizations are doing to cope with these changes and capitalize on new opportunities. In Part III, we present our conclusions.

Questions of Value

The issue of funding provides a key optic or lens with which to assess how we as a society organize to meet collective needs and accommodate the expression of often competing social, economic and political interests. Funding really does matter, as the title of this report asserts.¹ The funding of nonprofit and voluntary sector groups raises important questions about the value we as a society place on citizenship, mutual support and democracy. Given the dearth of information about the character of the nonprofit and voluntary sector, how it works, and the nature of its links to other segments of Canadian society, we hope that this study can begin to fill in some of these gaps.

We know that many representatives of nonprofit and voluntary sector organizations who took the time and trouble to meet with us and provide information about their financial capacity are also hoping that this report will generate constructive discussion and ultimately, beneficial change. The sector is not looking for a free ride. For example, it does not expect – nor does it want to be – unaccountable to funders. On the contrary, it seeks recognition for its multiple accountabilities, not only to funders, but also its accountability to clients, to partners, to its volunteers, and to communities. The intention is not to resist all change in funding mechanisms. Many, if not most, of the organizations with whom we spoke in the focus groups have embraced change and have worked to become more effective in the delivery of their programs and services. As this study documents, the challenge is to achieve a balance between what all organizations need (whether voluntary or not) – that is, stable, reasonably predictable and adequate funding that covers the costs of operation – and what all funders need – assurances that money is being well spent on mutually agreed purposes by vibrant and relevant organizations.

Endnotes

¹ We have borrowed the title from an article by Diana Leat. See “Funding Matters” in *An Introduction to the Voluntary Sector*, J. Davis Smith, C. Rochester and R. Hedley, Eds. London and New York: Routledge, 1995.