

Chapter 5: How Funding Trends are Affecting Nonprofit and Voluntary Organizations

The inherent instability of the emerging funding regime is fundamentally altering the ways in which nonprofit and voluntary organizations pursue and support their mission. As the principles, norms and rules that frame the actions of nonprofit and voluntary groups change, so too does the calculus of resource generation. Nonprofit and voluntary groups are forced to re-evaluate a number of issues critical to their sustainability, including income generation strategies and the mix and source of funding and other in-kind supports. More broadly, the emerging funding regime is calling into question the ability of nonprofit and voluntary organizations to pursue their mission and the ways in which groups organize to pursue these goals.

Of the host of factors that determine the capacity of organizations to realize their mission – everything from the vision of leaders and the strength of connections to the community to the experience of staff and volunteers – the composition of funding sources and mechanisms provides a critical *context* within which nonprofit and voluntary sector decision-making takes place. Succinctly stated, “organizations are constrained by the environment as a consequence of their resource needs” (Froelich, 1999: 247). Organizations that are heavily dependent upon external sources of funding – as most nonprofit and voluntary sector organizations are – are consequently forced to manage and/or struggle with the demands of funders in their pursuit and management of funding opportunities and their organizational goals more broadly. Increasing demands for service, rising costs, more diverse constituencies, increasing regulatory and legislative oversight, complex funding and reporting requirements, the expectations of staff, members, and clients, as well as the public, have all contributed to the growing pressures on nonprofit and voluntary organizations.

This chapter looks at the impact of the Canada’s new funding regime on nonprofit and voluntary organizations, drawing upon our extensive consultations with nonprofit and voluntary organizations and our written survey. First, we examine the impact on the financial capacity of organizations to generate and manage their resources. Following this discussion, we explore the ramifications of heightened financial uncertainty and volatility for human resources, programs and beneficiaries, governance, and organizational autonomy and advocacy. In sum, our findings suggest that the impact of funding reforms has been significant. The largest group of nonprofit and voluntary groups surveyed (43.9%) indicated that changes in revenue sources and funding arrangements had had a moderate impact on their groups. Three out of ten (29.3%) were struggling with significant or high levels of change related to the changing funding environment, while one-quarter (26.8%) reported low levels of change (N=41). Organizations that were dependent upon government for more than 65% of their funding – those that were “government concentrated – were much more likely to have experienced significant impacts related to changing funding practices compared to organizations with other funding profiles. Similarly, “government diversified” groups were also more likely to have experienced high impacts.¹

Nonprofit and voluntary organizations are actively engaged in this process of change, trying to articulate a new role within this changing funding environment as we document in this last section of this chapter. But it would be a mistake to suggest that they are engaging with their funders as equal partners in this enterprise. To date, funders have set the terms of the debate – terms which

nonprofit and voluntary organizations argue are undermining their capacity to meet mission. Certainly, the tensions that nonprofit and voluntary organizations are experiencing do not exclusively stem from funding dilemmas, but funding pressures are at the root of current struggles to meet mission. The contradictions between the stated intent of funding reform and its impact on individual organizations and the sector as a whole – and the frustrations arising from them – were apparent in the many stories nonprofit and voluntary groups told us.

5.1 How are funding trends affecting financial capacity?

The emerging funding regime in Canada is altering the financial capacity of nonprofit and voluntary organizations, according to participants in this study. Organizations have had success in diversifying their sources of income and in particular have been successful in securing new project-based funding, primarily from governments. At the same time, they have experienced a decline in sources of “stable” or “core” funding. The resulting financial volatility and uncertainty is evident in their day-to-day activities and is a driving force behind efforts to refocus strategies of income generation and deployment and to shore up financial capacity. Similarly, the increasingly competitive funding environment and the pressures of commercialization are affecting individual organizations in ways that are not yet fully understood. The question is whether the winds of changes sweeping through the nonprofit and voluntary sector are threatening the capacity of these same organizations to pursue their missions and consequently, undermining their contribution to Canadian society.

In this section, we look at the financial capacity of the organizations that participated in our study and their daily struggles to make ends meet. Of the many forces influencing the financial situation of nonprofit and voluntary organizations, the impact of the shift away from “core” or “organizational” sources of support to more contingent forms of funding has been critical, according to study participants. Among survey respondents, seven out of ten (70.8%) reported that they had experienced this shift (N=48). Overall, organizations characterized an average of 61.6% of their total funding as “project or program funding,” 25.7% as “core” funding, and another 8.1% as “other.”² While other sources of income remain important, especially for groups with an historic attachment to the private market, the dominance of project funding is now well established.

The shift away from core or organizational sources of support has heralded other changes in the financial situation of nonprofit and voluntary organizations. A significant majority of organizations (84.8%) stated that, compared to five years ago, there were more conditions attached to the receipt and expenditure of funds, from government sources (56.4%) and from non-government sources (10.3%). (One-third of organizations (33.3%) stated that there were more conditions attached to both government and non-government sources of funding; N=39). Three-quarters (76.0%) reported that they had specifically experienced restrictions in their ability to fund operational or “core” functions such as management and governance related to new funding practices over the past five years (N=50). As well, they noted a trend to shorter funding terms. On average, 69.5% of their total funding was for a term of one year or less, while an average of 30.5% extended beyond a year. Indeed, for six out of ten organizations (59.1%), over 75% of their funding was for a year or less (N=44).

What, then, have these changes meant for the structures, activities and overall goals of nonprofit and voluntary organizations?

Organizations are working harder to find and secure funding.

Current funding trends have had a significant impact on the organization of work within nonprofit and voluntary organizations. A large number of organizations reported an increase in the both human and financial resources necessary to pursue organizational revenues: 87.5% of organizations reported an increase in the “cost” of acquiring donations (N=48); 92.0% of participants reported an increase in the “cost” of acquiring grants and contributions (N=50); and 45.9% of participants reported an increased in the “cost” of acquiring competitively tendered contracts and/or establishing other sources of earned income (N=37).

Many participants made the observation that the increasing costs and subsequent difficulties in pursuing and administering financial resources are inextricably linked to the increasingly competitive funding environment. “It takes twice as much work to make not as much money and I see some of that as competition from other agencies for the same pot of money – so we’re tapping out because of competition” (FG: CS-NB). Certainly, competition for donations and volunteers has always been a part of the nonprofit and voluntary sector, but the level of competition today has increased. Today, there is acknowledged competition for all manner of funds, volunteers, staff, clients, and public recognition, in addition to donations. The majority of respondents stated that they faced increased competition from other nonprofit and voluntary organizations (89.4%, N=47), and more recently, other governments or quasi-public institutions such as hospitals and public foundations (63.0%, N=46). Some groups are competing with for-profit service providers as well (46.3%, N=41).

Competition for funds is now an integral part of the lives of nonprofit and voluntary organizations. Competition for donations was the most prevalent form of competition as reported by survey respondents; 88.1% of respondents reported increased competition for donations (N=43). As public and private funders have cut funding levels and/or more strictly targeted their resources and increased the conditions attached to their funding (discussed below), the premium on donated dollars has risen exponentially. Moreover, organizations that historically had stable support from government, such as hospitals and universities, are now competing very successfully for donations. Indeed, government foundations are now launching their own fundraising appeals. These larger quasi-public charitable institutions have completely changed the scale and scope of nonprofit and voluntary sector fundraising. “The hospitals are doing a lot, a lot more fundraising over the past few years and they have these big machines, huge staffs ...” (FG: CS-NB). In the marketplace for donations, many community-based organizations, particularly those that are not able to issue charitable receipts, are being sidelined.

The competition for donated dollars is fierce precisely because these funds are relatively untied, as we noted in Chapter 2. Donations for the most part can be directed to supporting the core work of the agency or areas that have not received support elsewhere. But they are very unstable, trending up and down with local and national economic fortunes and, for many organizations, have never made up a significant portion of the funding, certainly not for the majority of groups surveyed in

this study. By contrast, funding from earned income sources and from grants and contributions – from both government and non-government sources – can be a more significant and potentially stable source of funding (i.e., longstanding purchase of service agreements). Yet, the trade-off in terms of the costs associated with establishing and sustaining these funding streams is very high.

Competition for grants is particularly intense as grant monies more closely approximate donations in that organizations are able to use these funds as they see fit to undertake a project or support other organizational activities; 81.8% of those surveyed reported increased competition for grants (N=43). However, the majority of respondents noted that the pool of grant money available has shrunk considerably as governments in particular have turned to other funding mechanisms. The grants that are available tend to be set aside for new initiatives rather than for ongoing organizational support. As well, grant applications are complex and tend to favour organizations with established track records – a common characteristic of contribution and contract funding as well. With the exception of arts and culture organizations that continue to rely on granting agencies such as the Canada Council, many groups in our study noted that applying for grants was simply too time-consuming and costly given the likelihood of receiving support – however desirable. This sentiment was also expressed about United Way/ Centraide and foundation funding in many parts of the country.

Given the limited availability of grant funding, contributions and contracts are increasingly seen as the “only game in town”. These funding vehicles are the most common form of sector support; project funding typically takes this form. As such, nonprofit and voluntary sector organizations have little choice but to compete for these types of funds.³ “The lack of stable funding often makes it hard for an organization to avoid being diverted by chasing project money, attached to priorities determined by the funder rather than by the organization or its constituency, and to stay true to its mission with the ability to undertake long-term and strategic planning” (Hosli, 2001: 14). As one respondent from Québec wrote: “Nous travaillons constamment à préparer ces collectes de fonds, à remplir des demandes de subvention, à demander des commandites à fin d’assurer le financement de notre mission par l’entremise de nos activités” (#28). The disproportionate amount of time devoted to searching for and securing funds, especially project-based funding, predictably detracts from other organizational activities. One survey respondent commented that “[m]anagement spends significantly more time on identifying, securing and reporting on evaluation and innovation. Government, foundation and partnership reporting is enormous. In some programs, it is a ratio of 6 to 1 for securing and reporting versus service delivery” (#26). Another said, “A significant amount of time is used to find sustaining funds for project grants. Time could be better spent in other areas if operational funding was stable and from all levels of government” (#6).

Increased competition is also having an impact on nonprofit and voluntary organizations as they adopt more market-oriented approaches to the acquisition and management of funds. The impact of commercialization is pervasive in the sector, reflected not only in the growing prevalence of earned income and commercial activity, but in the embrace of private sector methods, tools and approaches to improve performance, efficiency and impact. By and large, nonprofit and voluntary organizations have been receptive to the private market message as they search for ways to improve and enhance their programs and services. They are similarly aware of the pitfalls to such strategies, not least of which is threat to the culture and ethos of nonprofit and voluntary activity. We discuss these issues in greater detail below.

Organizations are experiencing significant administrative difficulties stemming from the timing and coordination of projects and other organizational activity.

The continual and competitive pursuit of funding is one of the most visible signs of the pressures arising from the new funding regime. The time and effort involved is clearly affecting the work of nonprofit and voluntary organizations, according to our study participants. The actual process of securing, coordinating and reporting on project funding and other organizational activities is also posing significant administrative challenges for organizations, affecting all aspects of daily operations. The project funding model works smoothly in theory, but rarely in practice. That is to say, the time involved in preparing proposals, waiting for approvals, submitting revisions, waiting for final approval, and then receiving at least a portion of promised funds can be very lengthy, thus undermining the integrity of the programs and the organizations involved. The time involved in the operating and reporting phase of projects can also vary enormously and are similarly complex and difficult. According to Kirsten Gronbjerg, “these phases, and the associated tasks or work dimensions, rarely coincide for the different funding sources. Nor do they appear to relate in predictable ways to the size of the grant or governmental levels involved. This diversity constitutes a central aspect of the complexity that nonprofit managers face on a continuing basis” (Gronbjerg, 1991: 14).

Looking at the process of proposal writing, for example, the benefits of thinking through project work and identifying outcomes is undermined by the process itself. Preparing proposals can be very time-consuming, with no guarantee of success. Organizations surveyed for this project typically spend weeks – if not months – preparing proposals. Depending upon the amount of time between the due date for a given proposal and the start date of the project, actually crafting a proposal to dovetail with existing organizational work can be very difficult. If the preparation period is too long, it can be difficult to plan coordinated services as a great deal can change over the period. But if the preparation period is too short – a situation much more frequent among our study participants – no planning occurs at all. One participant talked about a government department that asked for a proposal with a day’s notice as the department was preparing to lapse funding for the fiscal year. This wasn’t an uncommon experience. Such a situation fosters cynicism among nonprofit and voluntary organizations and creates enormous strain in the relationships between funders and recipient organizations. More importantly, a highly dysfunctional project or program contracting process directly affects the quality and efficacy of the proposed program or activity.

The difficulties related to preparing proposals under these timelines, however, often pale in comparison to the difficulty in actually delivering and reporting on a program before year-end, particularly if time is short. Many focus group participants spoke about their frustration with funders that indicated their intent to sponsor certain projects or programs and then delayed posting a Request for Proposals (RFP) and processing the proposals that came in. Indeed, there is often considerable delay between the due date for proposals and the date when successful and unsuccessful applicants are notified, and then between the date when a proposal has been accepted and a formal contract is prepared and signed. This was a common complaint among the ethnocultural groups surveyed for this study who noted the excessive delays in applying to government for project funding. In instances when project funds must be spent by year end, these

delays eat into program time with predictably negative consequences for program quality and beneficiaries. As attention to monitoring and verification has increased, participants across the nonprofit and voluntary sector have noted an increase in time related to processing project applications. One of our case studies noted that the median weeks between proposal acceptance and contract signing for their projects in the last fiscal year was 26 weeks!

The point about contract signing is very important because organizations are prohibited from starting a project – even after being notified of proposal acceptance – until a formal contract is signed. Certainly, no expenditures can be made before this date; that is, organizations are prohibited from submitting bills for their services during this period. From an organizational point of view, it is very difficult to line up staff and resources without a firm commitment from funders. Moreover, the uncertainty of this situation makes it difficult to access credit or other funding sources again without signed authorization from the funder. Organizations, staff, clients and beneficiaries are left in limbo often for weeks waiting for final approvals. As time passes, the quality of the service or program is undermined as organizations are left in a financially untenable situation. This is not just a problem in launching a new project or program, but is also occurs if and when organizations negotiate contract renewals, a process that Smith and Lipsky refer to as the “dance of contract renewal” (Smith and Lipsky, 1993: 157). Indeed, the increasingly short-term character of funding compounds these problems as organizations are constantly in the process of seeking and negotiating project funding.

These problems are endemic in matching funding arrangements as well. In our survey, 61.2% of the organizations were involved in these funding mechanisms. Overall, study participants viewed the increase in these types of arrangements with ambivalence. Less than a third (28.9%) of organizations stated that these arrangements were desirable from their perspective. Most agreed that “collaboration and partnerships with other stakeholders are advantageous and can yield some excellent work” (#21). Yet, the amount of work involved in putting funding packages together and the instability of these arrangements pose real problems for nonprofit and voluntary organizations (See Chapter 6). One participant stated: “This approach is great as long as there is one who funds for 60% at least; otherwise it is timely and lacks security” (#31). Another from an ethnocultural organization noted that matching funding programs effectively screen ethnocultural and visible minority communities out, as they do not have the ability to raise funds in the private sector, the prerequisite of many funding programs.

These pressures are particularly acute in situations where organizations are juggling multiple funding sources and mechanisms. The increase in the number of income streams has led to a corresponding increase in funding criteria and conditions. Focus group participants reported difficulties in satisfying the often contradictory needs of different funders. Managing the separate relationships with funders is costly, as each income stream requires considerable management and evaluation effort. Focus group participants noted that it was not uncommon for funders to ask for highly detailed project reports or the time sheets of project staff to verify their participation in and time allotment to the project. Income diversification may well be insulating nonprofit and voluntary organizations from the pressures of a single funder or donor. However, it has not protected organizations from the stresses and administrative complexities of resource acquisition and management today.

The inflexibility of project funding is severely restricting the ability of organizations to conduct their work.

Project or contract funding also undermines the financial stability of organizations by limiting the ability of organizations to fund administrative or “core” functions such as management, governance and the like. This adds another layer of administrative complexity, challenging organizations to find or reallocate funds to tasks essential to the organization’s operation. As we note above, 76.0% of organizations surveyed reported that they had specifically experienced restrictions in their ability to fund operational or “core” functions, such as management and governance, related to new funding practices over the past five years (N=50). Two-thirds of organizations (65.3%) commented that the increase in conditions attached to funding had directly resulted in decreased flexibility in managing project and organizational funds (N=49). “How can you ... fund the executive director of an organization if you can’t include part of their salary in your project” (FG: CS-NB).

Successful programs and services depend upon successful organizations. And successful nonprofit and voluntary organizations rest on an infrastructure of supports, both tangible and intangible. Dedicated and skilled staff, sound management, effective and accountable governance, and financial and data systems tailored to the needs of the organization are all important in supporting an organization’s activities. As well, it is necessary to foster and support connections to the membership, clients and beneficiaries and to the broader community in order to remain relevant and effective. The legitimacy of nonprofit and voluntary organizations is reflected in the strength of these kinds of connections, yet these activities are not “easily itemized, individually costed or directly attributable to specific programs” (Eakin, 2002: 2).

Study participants were definitive about the frustration related to their inability under the terms and conditions of many funding agreements to charge, much less recoup, the real costs of the contracted programs. Moreover, the trend towards fixed price contracting is compounding these difficulties year over year. The ramifications for nonprofit and voluntary groups are enormous. The project funding model, in effect, eats away at the sustainability of the group, as programming is pared to the bone, important organizational activities are dropped, capital and infrastructure costs deferred – all in an effort to cover off non-program costs not recognized in fixed project budgets.⁴ Organizations are forced to engage in “creative accounting” practices, allocating as much of their administrative costs to project budgets as possible and/or inflating the value of in-kind contributions, all to pare down reported administrative costs. The prohibition against funding administration or core organizational costs directly undermines the viability of programs and ultimately, the sponsoring organization.

Nonprofit and voluntary organizations are experiencing acute cash-flow problems.

All of these pressures are adding up to acute cash-flow problems in many nonprofit and voluntary organizations. Two-thirds (66.0%) of the organizations surveyed reported cash-flow problems related to the project funding regime (N=50). Many nonprofit and voluntary organizations have modest assets, largely in the form of furniture, office equipment and the like. They do not tend to carry substantial financial reserves.⁵ Indeed, a few charitable groups have endowment funds but

these funds are typically reserved for select purposes. Boards of directors are usually loath to use reserves to offset the operating costs of organizations. Without access to a significant line of credit, delays in signing contracts and delays in making payments on time, can and does threaten the continued viability of nonprofit and voluntary organizations.

Above, we noted that funders – in many cases governments – are increasingly slow in signing project contracts and as a result, organizations are not in a position to bill for costs related to project start-up or operation for weeks after the formal project start date. Delayed payment systems similarly present organizations with major cash-flow problems. Many groups spoke of not being able to make payroll on several occasions. One executive director of a sports organization stated that he had taken a second mortgage out on his home in order to meet payroll while waiting for overdue payments. The stress related to this kind of financial brinksmanship is severe. Setting aside the fact that organizations potentially forego interest income when they are forced to backfill project funding from other sources, in so doing, nonprofit and voluntary organizations are providing interest-free loans to project funders. The irony of this situation is not lost of nonprofit and voluntary organizations.

Juggling cash flow is part of the necessary skills needed in management of nonprofit and voluntary organizations. Managers, hemmed in on all sides, are called upon to creatively manage organizational affairs in situations where amounts owing can often exceed total revenues in any given month to a significant degree. Certainly the active pursuit of unrestricted funding is critical to undertaking project work under these conditions. Others undertake income activities where they can reasonably expect to generate a surplus to apply to administrative or core costs other funders refuse to pay for. When donations fall short, organizations are often forced to exploit volunteers and paid staff to adjust to funding contingencies. For example, organizations leave positions unfilled, or deliberately under staff projects, all in an effort to save on labour costs – the largest line item in nonprofit and voluntary sector budgets. Administrative budgets are pared down, meetings of boards of directors are cut back, community outreach is curtailed, services and staff are outsourced. Managers are also forced to employ a host of other tactics to fund administrative costs excluded from project budgets by allocating as much administration to signed projects as possible and/or inflating the value of in-kind contributions. (We discuss these different strategies below.)

It is important to note that funders are well aware of the “technical” difficulties that current funding arrangements present, and indeed, accept in some instances the strategies that nonprofit and voluntary organizations employ to make ends meet. Laura Brown and Betsy Troutt quote an executive director in their study of Manitoba nonprofits about this game of complicity:

I'm funded by [a program] to work full time [on their project]. They know darn well that I'm also the executive director of [this organization] because I apply to them with that hat on for other funding for other work ... I have a formal relationship with them in that role. It ain't no secret. Nonetheless, the reality is that I probably spend half my time doing the [project that is funded by them] and half my time being executive director” (Brown and Troutt, 2000:16).

Among participants in our study, there was a global sense that funders did not seem to appreciate or care about the problems associated with current funding practices. Some felt that funders,

specifically governments, were not only aware of financial difficulties associated with current funding practices, but that they deliberately exploited the project funding system in order to solve their own fiscal problems, seeking out contractors that were able to withstand these hardships. Smith and Lipsky make a similar point in their discussion of the system of social service contracting in the United States:

“Nonprofits are virtually *expected* to cope with erratic revenues, underfunding and slashes to established budgets. One might say that through contracting, nonprofit agencies are enlisted into an alliance with government to manage the failures of the public sector to deal with clients reasonably and consistently” (Smith and Lipsky, 1993: 156).

As a result, relationships with funders were very strained. Speaking about the growing intensity of financial and program reporting, one participant said: “Relationships have deteriorated between the bureaucrats from the funding agencies and front-line workers. As accounting rules have changed, relationships that may have taken years to build are strained” (FG: E).

The prevalence of “financial administration” problems among the nonprofit and voluntary organizations participating in our study was startling. Across every sector, organizations reported significant challenges in generating and administering financial resources related to the growing prevalence of project-based funding, increased targeting, and tighter funder controls over the content and operation of projects and organizations. The troubles outlined above are not the product of mismanagement on the part of poorly trained managers in nonprofit and voluntary organizations, although that is sometimes the charge and indeed is sometimes the case. And while undoubtedly more can be done to enhance management and training in the nonprofit and voluntary sector, these problems described are much more systematic (Smith and Lipsky, 1993: 156). The costs of current funding practices to organizations – reflected in high levels of stress, staff turnover, demands on management, and the very high unfunded costs related to acquiring and operating projects – are prohibitive, creating a world of uncertainty and ambiguity that is undermining the overall sustainability of many organizations.

“Administrative difficulties” is really a euphemism for a set of profound changes under Canada’s emerging funding regime. The difficulties that nonprofit and voluntary organizations report in securing and pursuing their organizational activities, enumerated above are perhaps only overshadowed by the difficulties these same organizations are experiencing planning for the future. As one participant noted: “Unstable and hence unsustainable funding sources and streams are leading to difficulty in planning and strategic directions and budgets” (FG: E). Indeed the generally volatile and uncertain funding environment associated with these funding practices is driving a wedge between organizations in the nonprofit and voluntary sector that have the resources to cope with regular administrative delays and the many that do not. The theme of polarization is one that we will return to below as we examine the impacts of the new funding regime on human resources, governance and organizational autonomy.

Nonprofit and voluntary organizations are living on the edge. One organization summed it up this way: “About two-thirds of our annual revenues come from our program activities. These are all project financed and depend upon our marketing ability, professionalism and creativity. Our

capacity in all three areas has increased over the past five years, but it is still a terrific strain to maintain funding and momentum” (#25).

5.2 How are funding trends affecting staff, programs and beneficiaries, governance and organizational autonomy?

The impact of funding touches all aspects of operation. The struggles to piece together project funding, commercial contracts and annual fundraising efforts also directly affect staff and volunteers, and programs and clients. The reorientation of the organization around the exigencies of funding similarly affects governing structures and the capacity of nonprofit and voluntary organizations to represent the interests of their members and beneficiaries. We turn to a discussion of these impacts below.⁶

Organizations are experiencing heightened stress and turnover among staff and increased difficulty in recruiting and supporting volunteers.

Focus groups across the country spoke about the impact of funding reforms on staff and volunteers, both for the individuals involved and for the organizations' goals. The stress associated with the uncertainty of funding for nonprofit and voluntary organization took a very high toll on all members. Focus group participants spoke about the high rate of burnout particularly among staff. Poor wage levels and lack of benefits – documented by Browne and Landry (1996) and McMullen and Schellenberg (2002) – offer little compensation for employees attempting to serve clients and beneficiaries, often under difficult circumstances. Moreover, nonprofit and voluntary groups reported that reliance on contract staff or job creation programs was a huge barrier in their efforts to establish stable, high quality programming. For nonprofit and voluntary organizations, the insecurity of staff tenure related to project funding seriously undermines their ability to meet mission. The theme of human resources was in fact identified most frequently in our focus groups as a major problem for the nonprofit and voluntary sector: “The deterioration of employee quality of life is a real concern” (FG: CS-N). “Staff are working longer and harder with no compensation – burnout results, especially among those who are balancing work and family” (FG: CS-NB).

Overall, over 93.9% of those surveyed reported that they were experiencing greater demands on staff and volunteers in terms of time and resources related to changes in the funding environment (N=49). According to the executive director, “you never get ahead”. You staff up one project only to turn around and find that it is time to hire again as approval for another initiative comes through. In the meantime, the staff from the first project are already looking for future employment. As a result, “[b]ecause of the change in project funding, we have experienced a high turnover in staff. We have lost some very competent and reliable people” (#43). Specialized staff members, including managers and financial personnel, are particularly hard to keep. Six out of ten organizations (60.5%) surveyed reported that competition for skilled staff had increased (N=43). Focus group participants reported that competition for new graduates was also very difficult. Students today are coming out of school with higher levels of debt. Many graduates are no less idealistic about the possibility of working with an environmental group or community theatre. However, the instability and poor wages constitute real barriers for young people as well. Overall, “[it is] hard to find skilled staff willing to come on contract – [they are] looking for more” (#39). The rates of pay, lack of benefits, and heavy workload make it very difficult to compete against public or other private sector

employers – especially in instances where project funds fall short of project objectives and/or administrative costs are pared to the bone if not excluded altogether. “Corporations, governments and non-profit groups have poached some of my best staff since they offer major salary increases” (#25). While employment in the nonprofit and voluntary sector is often very interesting and rewarding, drawing people committed to public benefit work, employment conditions are a real barrier for organizations in their pursuit of mission. “Often we have to pay people much less than they are worth. Warm feelings can only go so far and staff turnover can impact clients” (FG: CS-NB).

Other studies of nonprofit and voluntary groups have emphasized the inherent tension between management and staff that can result from project funding, including pressures to contract out and reduce staffing costs on the one hand, and pressures toward greater professionalization (discussed below) on the other (Howe and Reed, 1999a). Participants in our study stressed that there were high levels of stress in their organizations, but tension of this sort was not extensive. Half of those surveyed (52.2%) reported heightened tensions between management, staff and volunteers (N=48). In most instances, management tried very hard to create meaningful and secure employment opportunities, bridging projects whenever possible. In situations where project funds were fairly secure – in cases, for example, where purchase of service agreements rolled over year to year – organizations did try to offer permanent positions to a core of staff members. But even these positions, according to participants, tended to have lower rates of pay than comparable public or private sector employment and little by way of benefit coverage.⁷ To make matters worse, respondents lamented that they were rarely able to secure funding for pay raises; funders were very reluctant in multi-year funding agreements to make provisions for cost of living increases for labour or program costs; nonprofit and voluntary groups are expected to deliver up the same service for the same price year after year. Indeed, one social service agency noted that many organizations did not even have the basic funding to meet their obligations to staff set out in pay equity legislation. In this instance, organizations are forced to seek other funds – from the United Way/ Centraide for instance – to underwrite the costs of their government sponsored project work.

In sum, participant organizations deplored what they saw as the growing divide in nonprofit and voluntary workplaces. “It comes back to not just poor benefits but the people who never even get them. So you develop a whole class of folks who live from one twelve month contract to the next. You then have staff spending the last quarter of the [project] contract time wondering if they will be the next casualty or not” (FG: CS-NB).

In response to the insecurity of funding, many organizations have felt compelled to invest in “development” staff. Historically, nonprofit and voluntary organizations have relied on volunteers including board members to fundraise for the organization. But increasingly, many of the groups that we interviewed noted the pressure to hire or contract for “professional” fundraising talent. Yet in an environment where there is acute pressure to minimize administrative costs, hiring someone devoted strictly to fundraising is beyond the reach of many nonprofit and voluntary groups. (Indeed, hiring any administrative staff can be difficult.) Fundraisers can and do provide important services to nonprofit and voluntary groups, but success is not always assured. One of the case study organizations hired two development officers. The executive director and the board of directors felt very strongly that this was necessary to secure funding particularly from the corporate sector. Yet

when asked if the organization had carried out a cost benefit analysis of devoting one-quarter of their staff to fund development, the executive director replied: “No. I simply don’t want to know.”

We also asked study participants about pressures to hire staff with professional credentials. There are a number of factors behind what has been called credentialization. The process of credentialization and professionalization more broadly, is part of a larger process of formalization and organizational change associated with the maturation of organizations. Changing ideologies and ethics of practice also contribute to the growing emphasis on professionally trained staff in nonprofit and voluntary organizations. And some funders are now exerting pressure on potential service providers to hire “professional” staff for certain positions, extending greater control over program content (Howe and Reed, 1999: 49-50). Similarly, there are demands for professional management personnel as well as people to carry out program evaluations and organizational development. Where once managers rose from the ranks of nonprofit and voluntary groups, professional managers are now being hired to manage the demands of an increasingly complex funding environment.

Generally, many nonprofit and voluntary groups spoke about the need to enhance the skill level of staff in the sector, particularly among managers, in order to respond to the increasing scale and complexity of work. As well, the demands from funders for evaluation and quality assurance were important factors behind their search for more highly educated staff and the commensurate increase in staffing costs as well. Yet, this wasn’t the case for all of the organizations involved in our study: only half (49.0%) reported increased pressure to seek out staff with higher credentials in order to compete for funds (N=49). But the trend was evident among the larger groups in our sample.

Nonprofit and voluntary organizations across the various sectors talked about the dangers that “professionalization” poses for their work, and ultimately, legitimacy. There is a real tension in organizations between their voluntary roots – and by extension, the continuing role of volunteers – and the demands of program and service delivery today, a tension that is difficult to negotiate. The pressures and complexities of the new funding regime, in effect, work to compound tensions. One family service organization from British Columbia provided a good illustration of this point. As part of service rationalization in the province, the provincial government is moving to contract with accredited organizations for a range of social services. Organizations must secure formal accreditation to be considered for program contracts. This means that, among other things, successful organizations must have staff complements that meet established educational criteria and have sophisticated systems of financial administration and accounting. For this one organization, acquiring accreditation has been a very positive move in their pursuit of financial resources; it won a large service contract over two other competitors.

At the same time, the push for credentialism can marginalize staff members who do not have the necessary educational degrees but may offer extensive experience with the community and clients. Similarly, the transformation of an organization from a “church basement operation” to a modern service organization can circumscribe the role of volunteers. This conflict goes to the heart of an organization’s role in providing service and in serving as the bridge between various interests, groups, and individuals within the community. That said, the conflict over credentialism was evident among social service and health organizations involved in the study, but did not seem to be an issue for other groups. Certainly, environmental groups and those serving ethnocultural communities did not experience the pressures of credentialism in the same way, and tended to draw

more extensively on their volunteers to carry out their project and advocacy work. Credentialism appeared to be a force widening the divide between groups engaged primarily in human service delivery under contract to government.

Finally, we look at the impact of the emerging funding regime on the role of volunteers. Growing financial uncertainty and resulting pressures on paid staff have spurred increased competition for volunteers. Again, six out of ten groups surveyed (60.5%) reported increased competition for volunteers (N=43). Volunteers fill critical positions in many nonprofit and voluntary organizations, not least of which as board members and fundraisers.⁸ They can also play a role in offsetting revenue or resource needs and/or reducing organizational costs. Certainly, nonprofit and volunteer organizations are turning to their volunteer base increasingly for support in their efforts to pursue their goals “to do more with less.”⁹ Some of the organizations participating in our study relied extensively on volunteers in their project work. But they also noted the increased difficulty in doing so.¹⁰ Recruiting, training, and retaining skilled volunteers is very time-consuming and costly. Many said that they did not usually have difficulty in recruiting volunteers on a one-time basis, for an annual fundraising drive for instance. But it was much more difficult to secure a long-term commitment and to provide the necessary support. This was particularly true among the smaller organizations surveyed – those that tended to rely more heavily on volunteer labour to start with – and those that needed volunteers to work with clients or to undertake skilled work, such as accounting. Organizations need to provide an infrastructure to support volunteers and to establish a real connection between volunteers and the organization. The irony is that chronic underfunding, linked in no small part of the belief that volunteers subsidize the operation of a broad range of nonprofit and voluntary groups, is undermining the capacity of organizations to recruit and retain the volunteers that they so desperately need.

Current funding trends are threatening the viability of programs and services, and consequently, affecting the interests of clients and beneficiaries.

The success or failure of funding reform, from the perspective of nonprofit and voluntary organizations, is ultimately measured by its impact upon their programs and services, and upon the people they serve and represent. Funders have pushed forward with funding reform for a variety of reasons, including enhanced program efficiency and accountability. The introduction of results-based management, for example, is a clear reflection of the desire to reorient nonprofit and voluntary organizations around client need and program outcomes. Similarly, the push to restructure the operations of nonprofit and voluntary groups to emulate successful private sector businesses through funding and reporting requirements and the elimination of core funding – to name two examples – has again been undertaken to improve programming. Yet, as nonprofit and voluntary groups surveyed for this study report, current funding trends in many instances are working to undermine the stated intent of funders, as well as the goals of nonprofit and voluntary groups themselves.

The value and contribution of nonprofit and voluntary services and programs for beneficiaries and communities is well established. Nonprofit and voluntary organizations are known to provide high quality goods and services, and employ a skilled and highly motivated workforce. They tend to be more flexible and responsive to clients and beneficiaries, with closer ties to the community, than private sector and state service providers. They are considered to be more trustworthy than for-profit

providers as there are fewer incentives for abuse in the nonprofit service system (ISUMA, 2001: 7). As well, they are active in building social capital within local communities, providing a venue and voice to diverse interests critical to the functioning of healthy democratic societies. The contradictory impulses embedded in funding reform are now threatening the valuable qualities that distinguish the nonprofit and voluntary sector from its government and market counterparts.

Predictably, the current funding environment is affecting the programs and beneficiaries of nonprofit and voluntary organizations in diverse ways, some of which we examined above in our discussion of financial capacity. The impacts range from shifting programming priorities to meet ever-changing criteria for funding to the increasing amounts of time spent in meeting the monitoring, reporting and evaluation requirements. Overall, 82.0% of those surveyed stated that changes in revenue sources and arrangements had had a significant impact on their programs and services (N=50). Concern was raised in a number of areas. We discuss four below: the extension of greater control over the structure and content of programs; the impact of commercialization; the impact of limited funds for core activities; and the impact on innovation and evaluation.

Concerns about programming were paramount among respondents. Seven out of ten organizations (70.8%) surveyed indicated that their clients or beneficiaries had been impacted by changes in revenue sources and funding arrangements (N=48). Over three-quarters (77.1%) noted that due to changes in funding practices, they had experienced restrictions in their ability to meet community needs (N=48). In particular, participants noted frustration related to reduction in service, the introduction of user fees, increased targeting, and so forth. These changes were in some instances related to cutbacks for specific programs. But they were primarily related to the loss of stable, core funding as well as the instability characteristic of the project funding model more generally. The short time frames associated with project funding, for example, tend to be very disruptive. “At the end of the year, programs are put on hold or reduced until further funding is found” (#34). Clients or beneficiaries that come to rely on the supports or programs of an organization are often left hanging, caught up in contract renegotiations. One participant from Québec put it this way: “Instabilité quant à certains programmes offerts en créant des besoins face à la clientèle, que nous ne pouvons maintenir” (#30).

A stable funding base is key to successful programs and satisfied beneficiaries: “The reliability of funding is very important if not the most important. Once you begin to offer a service and one that is needed especially for your community, then you need to have the means to deliver that service. By knowing the funds are sustainable and knowing that the clientele has been served properly, the end result is professional people in your organization being accountable for this work and a satisfied and contented clientele” (#43). As a result of funding instability: “The clients that we serve, because there are no other organizations providing the services we provide, have been cut loose to fend for themselves. ... The clients feel they have been used by the organization and blame the organization for promising a lot and now there is nothing. Staff were laid off because, although we tried with the support of many organizations, the government agency would not change its mind on the question of funding” (#43).

The changing funding regime has had a significant impact on the structure and content of programs and services. Many examples were raised in our focus groups about the impact of funding on programming through the extension of greater control over content. Funders are exerting greater

control over programs and services both through the targeting of funding – in effect, privileging large service organizations over and above types of organizations, a point we discuss in greater detail below – and the increase in the terms and conditions on the receipt and expenditure of funds. The “conditionality” of funding shapes in a very concrete way how staff members on the front lines organize their work. Just as managers juggle project budgets and cash flow, staff struggle to deliver programs within the confines set out by new funding conditions and reporting requirements. Attention can and is diverted away from quality programming and the needs of beneficiaries.

Social service organizations spoke about the pressures to see more clients within existing resources, and the high levels of client frustration resulting from these changes. In home care, for instance, where for-profit competition is well established in some provinces, workers have been ordered to spend shorter periods of time with each person, and to limit the types of assistance offered, specifications laid out in detail in funding contracts. Front-line staff in all of the social service organizations we spoke to were critical about being forced to reduce caring to measurable units. One social service organization said: “The majority of the services and programs offered are now subject to government criteria. Clients who do not meet established criteria do not receive service. We can only just meet the demands of those screened in clients with our current staffing” (#44). A participant from Quebec made the same point: “On a dû mettre des limites d’utilisation de notre garderie, refuser des services à un type de clientèle qui n’est pas financées par ce projet” (#15). While some noted that such a system may well be more “efficient”, the impact on staff and clients has been negative in many instances. Moreover, the savings in time and resources is in fact a false economy, as front-line staff report spending more time in crisis management with clients. Rhetoric to the contrary, this is a system driven by the needs of the funder to control and account for public dollars, not by the requirements of those in need of care.

The exigencies of funding have dovetailed with the broader trend toward commercialization evident in the nonprofit and voluntary sector, seen in the organization of social services noted above. The reorientation of programs and services around the private market is evident in other sectors as well. In the arts community, for example, there is an ongoing debate about the role and function of artists within market economies. One of the ways that this complex discussion is played out in the nonprofit and voluntary sector is in funding dilemmas over program content. What balance should a theatre company or art gallery strike between popular fare (i.e., Gilbert and Sullivan or a Monet exhibition) and support for new or more “challenging” artistic productions? More to the point, what balance does a funder strike between these two programs? In sport, similar questions are asked about the new support for elite athletes in a context of scarce public resources? In the zero-sum game of public funding, is the drive for marketable athletes being pursued at the expense of stronger community sport programs? We ask these questions to illustrate how new “private sector” thinking is influencing the development of these two important areas of the nonprofit and voluntary sector.

Restrictions on eligible program expenditures also create pressures within nonprofit and voluntary organizations as well. This is not “simply” applying for project funds and being turned down. When groups are not able to generate the funds necessary to offset essential non-program costs, or alternately, cannot raise the funds necessary under matching contribution arrangements, organizations are left with the option of cutting back or cutting out service all together. As one participant said: “Because of funding cuts, we have had to close our summer camp program and youth and media program, and youth conflict prevention. We are hitting the wall on several project

funding sources as well. We cannot get program funding increases to match increased demand or to enhance service” (#26).

The impact of not covering “core” or non-program administrative costs through the project funding model was a dominant focus in all of our interviews and discussions. Nonprofit and voluntary organizations in this situation are forced to streamline service, to “cherry pick” clientele, to cut corners when possible in order to keep program costs to an absolute minimum. Organizations are placed in the situation of having to assess whether they can afford to carry out particular projects, under the terms and conditions specified, regardless of the quality or potential value of the project. “We have been forced to re-think how we do our business. The services we offer have to first of all be connected to our mission and secondly, be able to generate revenue to offset operating the program / service” (#6). When nonprofit and voluntary organizations cannot generate the revenues necessary, programs and clients are abandoned. “C’est donc de plus en plus difficile d’accomplir notre mission sans trop de contrainte, on nous oriente sans arrêt et on devient moins efficace à agir sur ce qui préoccupe nos membres” (#6).

Charging or increasing fees is another strategy for coping with the financial shortfalls occasioned by the loss of core funding. Study participants were very conscious of the impact of higher user fees on beneficiaries. The director of a museum reported: “There have been fees implemented in all areas of the museum – school program fees, public program fees, research service fees, exhibition fees. This then impacts the user, as before 1999 no fees were charged (#6). “Cost recovery is part of everything we do now” said another participant (#45). Many organizations argued that they had little choice but to raise fees for their services and products as other sources of income were unpredictable and beyond their immediate control.

One of the stated objectives of the new funding regime is to encourage innovation. Yet, there is very little room for risk-taking and innovation in programming given the incentives and disincentives built into results-based management systems intent on monitoring and verifying program activity. From the perspective of nonprofit and voluntary organizations, the main concern with the stated intent of funding initiatives was the constant demands of having to repackage their activity as “new and improved.” This prerequisite is very time-consuming and exacerbates the uncertainty inherent in the project funding model. There was a real sense among participants that funders did not appreciate the work that groups are doing, nor did they recognize the success of many existing programs in meeting the needs of clients.

Further on this point, focus group participants spoke about the lack of support for internal evaluation. Yet, in the absence of core funding or designated funding for evaluation – as well as access to the necessary expertise – most groups did not carry out this type of analysis. Other commentators have spoken about fear of evaluation in the nonprofit and voluntary sector (Smillie, 1999). Fear or no, the bottom line was that few organizations were in the position to consider these types of activities, activities that many readily admit could improve and/or enhance program delivery and the overall efficacy of the organization.

The Shape of Change

Traditional	New Wave
Enterprise co-operates with others Broad knowledge of organization's work Generous with time Housewives, retired, human service professionals, small business Mission-oriented Concerned with quality of performance Contracts with government and limited fundraising Fearful of market place Good employers Resist merger New programs ancillary Decries competition Single entity Social work training Altruistic Do good Mission determines product Not-for-profit and deficit finance Serves poor through government grants and voluntary work	Entrepreneurial / competitive Specialized Pressed for time Large corporations, decision-makers Results-oriented, bored with philosophy Concerned with efficiency, effectiveness and tools to measure them Wary of government restrictions, so board fundraising and capital campaigns Contracts with business, etc. Hire on contracts Merge and seek to merge No program core Relishes competition Joint ventures Interdisciplinary Business Do well Market determines product Some programs income centres for agency Serves through third-party payments, uses surplus for poor
Source: Based on presentation by Geneva Johnson, President and Chief Executive Officer, Family Services America (quoted in Taylor, 1991: 47).	

M. Taylor. *New Times, New Challenges: Voluntary Organizations facing 1990*. London: National Council for Voluntary Organizations, 1991. Cited in Diana Leat, "Funding Matters" p. 185.

Accountability to funders is detracting from accountability to other stakeholders, including members, beneficiaries and the broader community.

Current funding trends and practices have also prompted a shift or transformation in governance structures and accountability mechanisms, according to many of the groups surveyed. As funders have extended greater control through funding vehicles and monitoring systems, nonprofit and voluntary groups have been forced to concentrate increased time and energy in sustaining their relationship with funders, often at the expense of their connection to organizational members, clients and other stakeholders. One of the clearest expressions of increased prominence of funders is the shift in the composition and role of boards of directors. Generally speaking, groups across the nonprofit and voluntary sector note that there is a global trend away from more traditional models of governance, based on the representation of community and client interests, to a more professional or "blue chip" model where potential board members are chosen for their connections to potential

fundlers. And while there is agreement about the trend and the elevated focus on funders in emerging accountability structures, there is no agreement about the desirability of these changes.

Among nonprofit and voluntary organizations surveyed for this study, many in the arts and culture sector as well as in recreation and sport expressed greater acceptance of the need to recruit “blue chip” boards than those in social services or organizations serving ethnocultural communities, for example. Those in the first group saw the shift to “blue chip” boards that concentrated on fundraising as necessary within today’s funding environment, and indeed important to efforts to streamline decision-making processes. A participant from the environmental focus group summed up this position, saying: “Ideally your board members would be people who have the personal networks and the personal contacts who can steer you in the right direction to where the funding is” (FG: E). Respondents from the latter group were concerned about the impact of such a shift on ensuring representation of diverse communities of interest and the legitimacy of community-based nonprofit and voluntary organizations. They argued that broad representation on boards is important precisely because it strengthens decision-making in financially turbulent times and helps to validate actions taken to respond to new challenges.

The debate about the role of boards and accountability is ongoing. Yet, there wasn’t a great deal of evidence among the groups surveyed that they had moved to any significant degree away from member- or community-based governance structures. Certainly, the idea of attracting well-connected board members was enticing for many, but in reality, most nonprofit and voluntary groups reported difficulty in recruiting board members at all. There were exceptions. Some organizations did have corporate members on their boards. Others were actively pursuing corporate and professional board members in efforts to diversify and increase their funding. Yet at this point, most organizations in our sample remain community-based, drawing on long-time members to staff board positions. Moreover, it would appear that few boards outside of the health sector – or smaller organizations – are actually involved in securing contracts or other income opportunities. These tasks continue to fall to paid staff and to management in particular.

It is true to say, however, that the role of boards is changing in response to the emerging funding regime. The very complexity and diversity of funding sources and arrangements tend to afford greater authority to the executive vis-à-vis community boards. In one study of eight national nonprofit organizations, Juillet and his colleagues did not find an explicit shift in favour of managers. They did find, however, that organizations were engaged in efforts to clarify the roles and responsibilities of staff, managers, and board members. As a result of these reforms – intended or otherwise – the autonomy of managers had increased. At the same time, boards have attempted to strengthen accountability by concentrating on broad policy, overseeing financial practices and assessing the performance of the organization. These trends were not tied to reliance on a particular funder, but were tied – in the opinion of the authors – to the complexity of “multiple sources of funding, the gain and management of multiple projects, and associated requirements for greater entrepreneurship and expedient actions” (Juillet et al., 2001: 53).

The connection between the emerging funding regime and structures of governance and accountability to members and community are not straightforward. Many groups participating in our study did downsize the size of their boards, thus reducing the representational character of the elected organizational overseers. However, in most instances, these actions were taken to trim costs,

not to elevate professionals or to become more “efficient”. Nonprofit and voluntary sector groups surveyed were very conscious of the inherent dangers of weakening board structures as they position the organization in an increasingly competitive environment. “When funding sources drive the mission of the organization it means the community often loses out” (FG: CS-Q). Similarly, they were aware of the problems that can arise as authority and expertise are concentrated in the hands of management in the push to capitalize on funding opportunities. “Democratic structures of control and accountability [can] come to be seen as irrelevant, if not counter-productive and expensive luxuries” (Leat, 1995: 184).

Many focus group participants acknowledged that they often walk a tightrope between the course that is desirable and the one that is pragmatic in the pursuit of funding. They were all concerned, however, about the global trend towards undue emphasis upon accountability to funders. “There are contradictions between the accountability to your funder and the great deal of energy it takes that detracts from accountability to your beneficiaries” (FG: CS-N). The time and energy spent reporting to funders has increased markedly, as reported above. This trend is having an impact on the ability to nonprofit and voluntary organizations to stay connected with the people they serve and their broader communities. Over half of the organizations surveyed (57.8%) reported that they were experiencing greater difficulties in remaining connected to their communities and constituencies under the new funding regime (N=45). None of the organizations that participated in the study stated that accountability was not important for their organizations and the nonprofit and voluntary sector in general. Indeed, the new emphasis on outcomes as it related to demonstrating the impact and value of nonprofit and voluntary groups was seen as very important. However, the disproportionate focus on the accountability requirements of funders, certainly as it is structured through current funding arrangements and practices, threatens to consume the energies and sustainability of many organizations, particularly smaller groups that do not have the structure or capacity to deal with complex and often contradictory reporting requirements from multiple funders. Pressures to continually account to funders similarly threaten to cut nonprofit and voluntary organizations off from their base of support and legitimacy.

Advocacy and advocacy organizations have been marginalized under the new funding regime.

Nonprofit and voluntary organizations play many roles in Canadian society. Much of this study has focused on their roles as service providers, but they play equally important roles in representing the interests, identities and concerns of their communities, and in providing venues and opportunities for Canadians to participate in their communities in the interest of the public good. The new funding regime is having the effect of discouraging – if not outright silencing – the rich diversity of voices and views of nonprofit and voluntary organizations on many issues that matter to Canadians. Advocacy has become so sensitive that many organizations, rather than tip-toeing around the sensitivities of funders, have just stopped speaking out.

We note in Chapter 2 that the nonprofit and voluntary sector has a longstanding relationship with the Canadian state. Different governments, at different times, have actively encouraged the creation of organizations committed to the arts and to health and also to advocacy on behalf of disadvantaged communities, including women, Aboriginal peoples, persons with disabilities, ethnocultural and ethnoracial communities, official language minorities and low-income Canadians.

Through the 1960s and 1970s in particular, a rights-based movement around identity and equality gained a political voice through the creation of national, provincial and local advocacy organizations. Governments provided key financial support for these groups, including core funding, that enabled groups to pursue broad change agendas. This financial support was critical not only for the creation and maintenance of these groups, but in the legitimacy that such support conferred. State support confirmed that: “achieving justice and equity were legitimate goals, and therefore groups which made claims, and programs which responded to such claims, were in the political mainstream” (Jenson and Phillips, 1996: 118-19).

The 1990s marked a decisive shift in the level of support for nonprofit and voluntary organizations, the result of a confluence of political and economic forces. First, nonprofit and voluntary groups were profoundly affected by government moves to reduce and redefine the scope of public service, and to cut back public expenditures in efforts to promote “greater reliance on funding from other sources” (Cardozo, 1997: 315). In particular, advocacy organizations were directly targeted for funding cuts in a process described by Leslie Pal as “disengagement” (Pal, 1997). At the same time, selected journalists and public figures raised concerns about what they referred to as the “Greed, Waste and Fraud in Canada’s \$86 Billion-a-Year Compassion Industry”. Walter Stewart’s 1996 book, *The Charity Game* (pulled from circulation under threat of legal action) and John Bryden’s report to Parliament the same year alleged that nonprofit and voluntary organizations, charities in particular, were simply self-serving special interest groups lacking accountability and legitimate purpose (Bryden, 1996). He argued that groups which are effectively on the “tax payers’ payroll” should leave political debate to the politicians (Picard, March 25, 2002: A1). It was no surprise in the face of hardening political attitudes that the federal Department of Finance proceeded with a review of nonprofit and voluntary sector grants under Program Review in 1994-95, cutting funds by a total of \$300 million.

Funders did not turn their backs on the nonprofit and voluntary sector completely. Following the turmoil of the mid-1990s, as the economy returned to health, governments sought to craft new relationships with the nonprofit and voluntary sector. Specifically, governments “re-engaged” with selected nonprofit and voluntary organizations, in particular service-oriented community groups. This process marked a decisive shift in government-sector relations, winding down support – monetary and otherwise – for advocacy organizations. Organizations such as the Canadian Advisory Council on the Status of Women, for example, were closed, their budget turned over to Status of Women Canada in the name of economy and efficiency. Across other sectors, governments withdrew support for intermediary bodies and ended the system of core grants for many national organizations, including the Canadian Council on Social Development. Only through intense lobbying were national anti-poverty and disability organizations spared, but they received reduced levels of funding. A similar process took place in many provinces. As a result, advocacy in Canada has been scaled back to a significant degree.

The impact has been felt across the entire nonprofit and voluntary sector, as funders have sought to fashion new “partnerships” with nonprofit and voluntary groups through new contractual funding arrangements and other market reforms, privileging “neutral” service providers over “special interest groups.” The divide between winners and losers in the nonprofit and voluntary sector has never been so clear. These trends are challenging the autonomy of the sector in a number of ways. The most immediate impact has been on the demise and weakening of existing advocacy

organizations. There are no longer assured sources of public support for these organizations critical to the healthy functioning of Canadian democracy. Moreover, other nonprofit and voluntary organizations are now much more circumspect in their advocacy and public education work. Focus group participants spoke about being “more aware” of the potential ramifications of their advocacy-related activities. As a result, groups are being “more strategic” and “more selective in issues that [they] will actually advocate for or against” (#38).

The situation of charities is particularly tenuous as charities are prohibited from spending more than 10% of revenues on “political activity”. Thus, charities are forced to carefully monitor activities and expenditures. Organizations such as the Institute for Media, Policy and Civil Society have been very vocal about the negative impact of Canada’s “archaic tax laws” on charitable organizations (IMPACS, 2002). Organizations are allowed to distribute aid to poor children and families, but cannot advocate for improved policy and programs to address the causes of poverty. These constraints certainly do not apply to private interests who are able to access large financial resources to advance their issues, and then claim these expenditures as tax deductions. The promotion of corporate interests by registered lobbyists is seen as legitimate, whereas efforts by charities on behalf of their constituencies is construed as an abuse of their privileged tax status.

Overall, many nonprofit and voluntary organizations have stopped advocating, constrained by lack of volunteers and core funding, as well as fears of being marginalized in the competition for funds from governments, donors, foundations and the like. One participant said: “due to unclear rules and fear of losing funding opportunities, we do not advocate. The risk is much too great” (#32). Others craft their messages very carefully: “when you receive government funding, you cannot lobby for fear of jeopardizing your funding. You may see changes that could be made but always have to present them in a very careful, positive way and you must always give the government credit” (#37). Another said: “You are always aware if you have a funding proposal sitting on the minister’s desk. You don’t want to have your name in the paper that day” (#50). Groups from the ethnocultural community, both those with and without charitable status, were clearly fearful of speaking out; some referred to explicit threats that had been made by funders to cut their funding.¹¹ Many organizations also expressed concerns about losing their charitable status, a key asset in their efforts to generate income. As these examples illustrate, a climate of advocacy chill has set in, threatening not only the organizational autonomy of nonprofit and voluntary organizations, but their capacity to pursue their goals: “We can’t fulfill our mission due to barriers to funding advocacy work” (FG: CS-NB). The impact of the new funding regime on the character and quality of democracy is cause for deep concern.

5.3 Nonprofit and Voluntary Organizations Responding to Change

It is important to acknowledge that all revenue strategies have advantages and disadvantages: the ideal scenario with continuous flows of funds for unencumbered mission pursuit is not and never has been a reality for nonprofit organizations. Rather, a variety of funding sources exist, each associated with particular constraints and different management tasks. A key to organizational viability and integrity is to understand the opportunities and tradeoffs choose revenue strategies that are consistent with the mission, and conscientiously respond to management challenges presented by each strategy (Froelich, 1999: 261).

Within the realities of the emerging funding regime, nonprofit and voluntary organizations are exploring alternative strategies to bolster their capacity to meet mission. It is a difficult task – one that requires groups to balance the demands of financial security and the need to preserve organizational autonomy. Predictably, resource strategies vary widely, reflecting the diversity of the individual nonprofit and voluntary organizations and the social, political and funding contexts within which each organization operates. For example, some groups continue to seek out government project funds, while others are attempting to launch commercial ventures. Others are attempting to extend the reach of their fundraising through direct mail campaigns or planned giving. On the expenditure side, we see creative responses throughout the sector as groups forge alliances to reduce administrative costs or share infrastructure. More often, groups attempt to achieve “staffing” efficiencies, amalgamating job functions or arranging for staff to work out of their homes. Nonprofit and voluntary organizations are also reconsidering programming and governance structures all in an effort to “modernize” – to get ahead of funding trends.

The diversity of responses is key to understanding the impact of the new funding regime, how, on the one hand, increased competition for resources for example is affecting the activities and contribution of the nonprofit and voluntary sector, and on the other hand, how the responses of nonprofit and voluntary organizations themselves are affecting their own efforts to realize mission. It is not simply that new funding trends and practices are having a direct impact on nonprofit and voluntary organizations. They are. But as the funding regime has changed, nonprofit and voluntary organizations are moving to adapt their organizations and resource strategies. The impact of the emerging funding regime must be understood in this broader context, where nonprofit and voluntary organizations are actors in their own right. While the range of strategic choices is increasingly narrow and the relationship between funder and funded grossly unequal, nonprofit and voluntary organizations continue to set their own course. Succinctly stated, we have to take the actions of nonprofit and voluntary groups into account in order to understand the impact of changing funding sources and mechanisms on the capacity of nonprofit and voluntary organizations to meet mission.

Below we look at how nonprofit and voluntary organizations are responding to the changing funding environment, specifically, the alternative income generation strategies that they are pursuing and their efforts to reorganize and reduce costs. We see a range of responses on the part of these same organizations, reflecting the differential capacity of organizations to sustain their activities and to capitalize on new opportunities.

Nonprofit and voluntary are actively pursuing a range of alternative income sources.

As the pressures related to funding have grown, as reported by our study participants, so too has their efforts to diversify their funding bases. For some organizations, dependence on a single stable source of income would be preferable. But the reality for most is that it has been increasingly necessary to seek out alternative sources of funding, that is to increase the number and type of funding sources. This is not simply a case of taking on more project work, although that is the reality for many; rather groups are explicit about their efforts to seek out different types of funding, from different sources, to create a more sustainable financial base and to dilute the financial and organizational risks associated with heavy dependence on one or two funders.

As we reported earlier, an overwhelming majority of organizations surveyed (93.3%) have sought to diversify their funding sources over the past five years (N=44). Different events triggered the search for funds, including:

- reduction in funding (i.e., from governments, corporate donations, gaming);
- increased demand for service;
- persistent financial problems;
- uncertainty and vulnerability related to high dependence on a single source of funding;
- need for new building or working capital (i.e., technology); and
- pressure from funders to diversity.

Many groups noted that they are pursuing new funding sources because of the project grind itself. The lack of administrative or core funding, and the restriction of the use of project monies, create conditions of chronic underfunding within the organization. The very structure or logic of the project funding model forces nonprofit and voluntary groups to raise additional funds or reallocate existing monies in order to support new project work.

The push to diversify their funding base, then, is an effort on the part of nonprofit and voluntary organizations to enhance their autonomy and financial security. And many groups have succeeded. Two-thirds (65.9%) of organizations report that they have a larger number of income sources today than they did five years ago (N=44). Community benefit groups were the most likely to state they have more sources of funding (88.9%) followed by social services (72.7%). In contrast, only 40.0% of health groups and 44.4% of recreation, sport, arts and cultural groups responded that they had more sources of income than five years ago. These findings echo those reported in Chapter 4.¹²

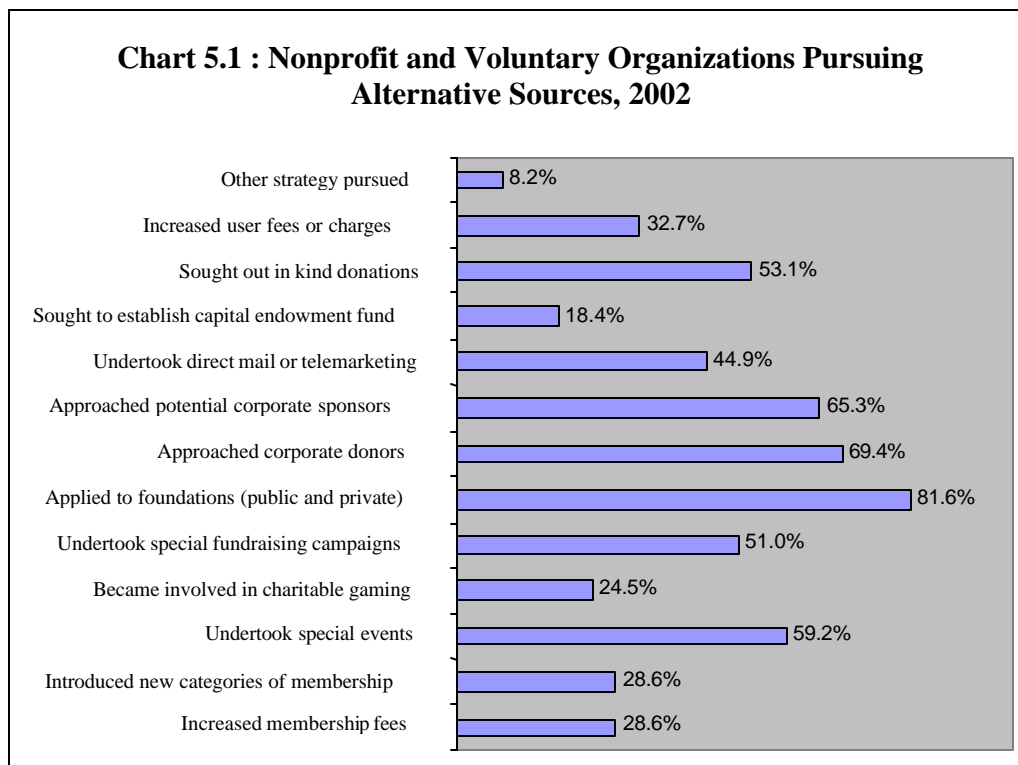
Of the various alternative funding opportunities available, respondents indicated that government was still an important – if not the central – source of financial support. Seven out of ten nonprofit and voluntary groups (71.4%) identified government as an important source of alternative funding (N=49). Of this group, all had approached provincial governments, seven out of ten (71.4%) had approached the federal government, and roughly half (54.3%) had approached regional or municipal governments for funds. Given the significance of government as a funder of the nonprofit and voluntary sector in Canada, this finding is not surprising. An analysis of the financial information of our survey participants reveals the increase in aggregate income experienced by this group of nonprofit and voluntary organizations between 1997 and 2002 was driven by increases in government project funding, even as access to grant income fell. Despite the high costs related to government funding including the potential loss of control over policy, programs and procedures, it is still the only source of funding for many types of nonprofit and voluntary activity according to many study participants. The promise of financial stability is also important in the continuing allure of government funding for nonprofit and voluntary organizations. “You do get paid eventually” (#50) as one focus group participant said. Stated another way, “better the devil you know, than the devil you don’t” (#10).

Nonprofit and voluntary organizations also pursued non-governmental sources of support, with varying degrees of success. Respondents identified foundations – both public and private – as the most common potential source over the last five years period: 81.6% of nonprofit and voluntary

groups surveyed had submitted applications for funding, some of which were successful as witnessed by the increase in funding from public and private foundations discussed in Chapter 4. One-third of organizations (32.7%) raised user fees for products or services, a point that we return to below. Just under half (44.9%) attempted to increase the number of members and another 28.6% increased their membership fees. In a new trend, 28.6% of the nonprofit and voluntary groups surveyed introduced new categories of membership in order to expand their base of support.¹³

Two-thirds of participating organizations had approached corporations either for donations (69.4%) or for sponsorships (65.4%) – again with some success. With regard to approaching corporate funders, many organizations noted the increasing difficulty they were experiencing soliciting donations as many larger businesses are increasingly targeting philanthropic dollars to select causes, often through new corporate foundations. In addition, as the economy has restructured and head offices have moved elsewhere, Canadian branches do not have the same pool of charitable dollars at their disposal. More than one group lamented the time and energy that had been spent developing relationships with specific managers and CEOs, only to see these people transferred or leave the companies after restructuring or mergers. The general feeling was that multinational companies do not have to same interest or commitment to investing in Canadian communities.

Under fundraising, over half of the groups (59.2%) undertook special events, and just half (51.0%) mounted special fundraising campaigns targeted to individual donors. Just less than half of the groups (44.9%) surveyed approached individual donors through direct mail or telemarketing. One quarter of the organizations surveyed (24.5%) sponsored charitable gaming events for fundraising purposes. One in five (18.4%) organizations attempted to establish an endowment fund. The stakes are high. More than one key informant to the study said that the future of the sector lay in increasing individual donations, tapping into the expected transfer of trillions of dollars between generations coming over the next two decades. Yet how to do so? Focus group participants stated that the costs of pursuing fundraising have increased enormously – both in terms of the human resources and financial resources required (see section 5.1). As well, there is a real sense of donor fatigue as requests have proliferated. One participant stated that “local businesses are really getting hit upon. Individuals are also getting more requests” (#47). In this climate, it makes it even more difficult to fundraise and to sustain fundraising efforts year after year. Some groups have turned to external fundraisers in an effort to generate income (24.5%); others – principally larger organizations such as hospitals and universities – have dedicated staff resources to the task. There are also questions about how to raise funds (i.e., charitable casinos) and where to go for funds (i.e., tobacco companies). Simply stated, fundraising is an increasingly complex undertaking. As a result of these pressures, many now notice a divide opening up in the nonprofit and voluntary sector between those groups that have the ability to mount extensive campaigns for donations and those that by necessity rely on the sporadic involvement of volunteers to solicit donations.



Source: CCSD Funding Study (N=49)

Certainly, nonprofit and voluntary organizations that have a charitable number have a considerable advantage over those who do not. The issue of charitable status has been a considerable point of contention for many in the sector who have been unable to secure a charitable number under existing tax regulations. The Canadian definition of a charity and charitable activity is based on the original definition set out in the Elizabethan Poor Laws. The leading definition of charitable uses or purposes in Anglo-Canadian law is the case *Commissioners for Special Purposes of the Income Tax v. Pemsel*, [1891] AC 531 at 583 (HL). In that case Lord MacNaghten said: “Charity’ in its legal sense comprises four principal divisions: trusts for the relief of poverty; trusts for the advancement of education; trusts for the advancement of religion; and trusts for other purposes beneficial to the community, not falling under any of the preceding heads.” As such, many types of public interest activity are not captured in the Canada Customs and Revenue Agency (CCRA) regulations.

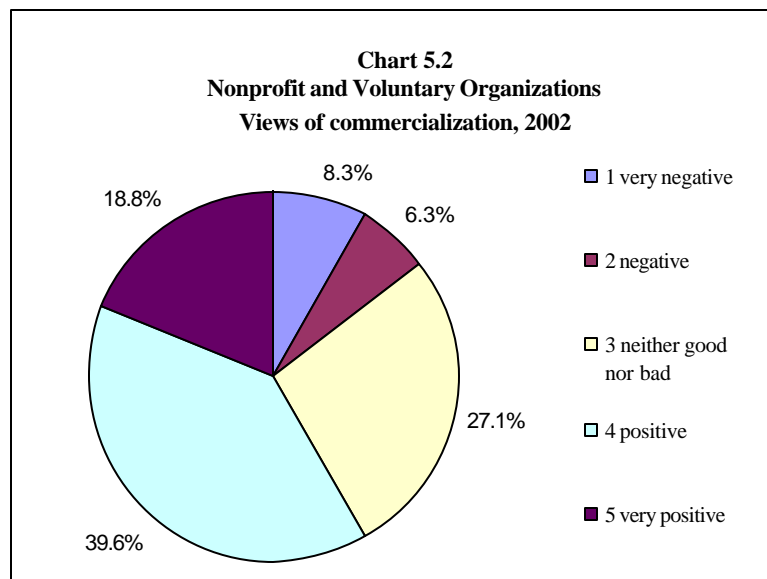
Organizations serving ethnocultural and ethnoracial communities are a case in point. Many groups have made applications for charitable status and been turned down because their causes – promoting multiculturalism, for example – have not been recognized in the regulations nor by a court of law. Indeed, the opinion of successive courts has been that the activity of ethnocultural organizations is inherently political and thus not eligible under the definition of charity set out in CCRA regulations. Efforts to apply under the heading of “advancement of education” have similarly failed as courts have narrowly interpreted this category to mean groups directly engaged in formal educational activities such as schools. The CCRA has gone further to query whether ethnocultural organizations are operating for the benefit of the public at large and not just in the individual interests of their members.¹⁴

The debate over the definition of a charity is an important one in relation to the ability of nonprofit and voluntary organizations to diversify their sources of revenue and fund raise more generally. Discussions have been ongoing for many years between representatives from the sector and the federal government. Other countries have certainly moved to update their tax laws. To date, no progress has been made in Canada. In fact, many of the groups that we spoke to claimed that it was now more difficult to secure charitable status than it has been in the past.

The pursuit of in-kind donations was also important as an alternative source of financial support for over half of the groups surveyed (53.1%). The whole topic of in-kind donations deserves more attention. Nonprofit and voluntary groups rely to a very large extent on the services of volunteers to govern and operate their organizations. They seek out professionals, for instance, to donate their services in fields like accounting or social marketing. They attempt to secure discounts from suppliers for goods and services, fee reductions or waivers on the use or rental of facilities – typically from public institutions, and access to specialized training for staff or volunteers. For charities, the task of soliciting in-kind contributions is made easier by virtue of the fact that they can issue charitable receipts to donors. (In this instance, a charitable group pays for a service or good; the individual or business then hands over a donation for all or part of the value.) Taken together, in-kind donations constitute a critical part of the funding or resource mix, one that is largely invisible because of the difficulties involved in attributing a dollar value to donated goods and services. To this extent, one can argue that *more* than half of the groups surveyed are probably engaged in soliciting in-kind donations.

And lastly, six out of ten groups (59.2%) stated that they were pursuing commercial or business activities to diversify their resource base. This finding is interesting in light of recent research documenting the relatively limited scope of commercial activities in the nonprofit and voluntary sector in Canada (Zimmerman and Dart, 1998). Our own survey found that 37.5% of organizations surveyed were already engaged in commercial activities in 2001, representing 11.9% per cent of total incomes of the groups surveyed – the largest source of income under earned income.¹⁵

The arts and culture and the sport and recreation groups had the most experience with commercial activities among participating organizations. A number of social service organizations had commercial operations as well. By and large, they were very positive about these operations, noting the benefits of market discipline and directly dealing with, and responding to, program consumers. Overall, a majority of organizations surveyed for this study (54.8%) stated that becoming more “business-like” was a “positive” or “very positive” development for the sector (N=49).



Source: CCSD Funding Study (N=48)

Given the number of organizations that were surveyed, it is not surprising that there was a range of opinion about the impact of earned income and the forces of commercialization more generally. Recreation and sport groups, for example, were more likely to see the increase in competitive pressures more positively, as opposed to the majority of social service and community benefit groups participating in the study.¹⁶ These differences clearly reflect the different histories and the different funding mixes of each subsector. To develop this point further, many recreational groups noted that there had always been competition with nonprofit, public and private sector service providers. As the competition in the recreational marketplace has increased and public support in the form of government grants and contributions has been cut back, many recreation groups argued that it was incumbent upon the organizations to become more innovative and responsive to consumer needs. One group went as far as to say that the “elimination of core funding has meant greater creativity in new program development” (#1).

The same sentiment was expressed by a number – but certainly not all – arts and cultural groups. The manager of a small theatre was acutely aware of the need to position the organization in an increasingly competitive art and entertainment environment. Competition had forced them to strip down and focus on what they do best. A tight focus on the box office had been important, he believed, in moderating the overall growth of the theatre and its programs, thus helping the organization to avoid the pitfalls of expanding beyond the financial and organizational capacity of the theatre company.

At the same time, these participants talked candidly about the risks involved in investing in a new program or service where there was no guarantee of return and the very real possibility that failure would drain resources from other program areas or precipitate the collapse of the organization as a whole.¹⁷ Generally, they noted the difficulties inherent in managing different income streams within one organization, not least of which were the need for considerable expertise and skill on the part of managers and board members, and more sophisticated administrative and financial systems. The complexities of these tasks were particularly acute when a single program or service relied on two

or more distinctive funding sources. For example, focus group participants discussed the challenges involved in balancing market and “public benefit” objectives in setting ticket prices and registration fees. Organizations were very aware of the dangers in pricing their programs beyond the reach of the general public, especially those of limited means; at the same time, the impulse to increase fees was ever present given the unpredictability of other funding sources. Certainly, a number of the organizations surveyed did increase their fees (32.7%) in order to raise funds as reported above.

Generally, many organizations involved in earned opportunities, and commercial ventures in particular, said that the demands of pursuing and administering these activities resulted in a creative tension and focus on program outcomes that was positive for the organization. At the same time, some noted the ongoing stress related to the programs and projects, including a narrower program and client focus, increased demands on staff, reduced focus on community needs, and intensified competition with other nonprofit and for-profit service providers. Moreover, it was not always clear that earned income programs were more efficient or less expensive. To wit, an executive director of a national social service organization spoke about being locked into a money-losing sponsorship agreement, all in the effort to sustain corporate good will.

There was also a strict division of opinion about the need to become market savvy competitors in a lean and mean service marketplace. Many groups, especially those in social services and those serving ethnocultural communities, strongly objected to the idea that they should be singing for their supper when they were providing essential public supports and services. Similarly, arts groups expressed the opinion that public funding for the arts was critical in order to provide a platform or space for artists to pursue their creative visions, insulated at least in part from market pressures. For these groups, the call for nonprofit and voluntary organizations to become self-sufficient on the part of funders, notably governments, is an abrogation of the public good and the citizenship rights of Canadians. This sentiment was forcefully expressed by many service providers, but it was also expressed by groups involved in advocacy and public education. For them, the marginalization of advocacy activities and organizations represents an attack on democracy in Canada. Other nonprofit and voluntary organizations, specifically those in the recreation field, were more comfortable with a diminished public role in funding. Indeed, there was more of a sense of the natural life course of organizations, where groups spring up in response to community demand and die when that support fades. In this regard, recreational groups seemed to be closer to informal, “grass roots” groups.

All in all, of the diversification strategies identified, undertaking special fundraising events (20.0%) was considered the *most* successful strategy, followed by pursuing government funding (12.5%); applying to foundations; seeking out in-kind donations (12.5%); and mounting fundraising campaigns (12.5%) (N=40). Organizations surveyed also reported that pursuing additional government funding, especially from provincial governments (14.0%); approaching corporate donors (13.9%); applying to foundations (13.9%); and conducting membership drives (13.9%) were the *least* successful (N=36).

Respondents stated that the most common impediment to pursuing alternative sources of revenue was time, money, and energy. “Le temps, l’énergie et les ressources humaines” (#28). Most community-based groups, such as the ones surveyed, were too small to have dedicated development and fundraising staffs of the type that hospitals and universities employ. Yet spending the time necessary developing a business plan and other marketing tools was seen as critical to efforts to rise

above the funding fray. In an increasingly competitive environment dominated by project funding, groups lamented that they were often too busy – running as fast as they could to meet day to day obligations to spend the time necessary to develop long-term funding or organizational strategies. Organizations also stated that they had difficulty in fitting into funding priorities and criteria set out by funders. As a consequence, some stressed that it was necessary for nonprofit and voluntary organizations to be increasingly flexible in the range of activities they undertook; others were explicit about sticking to mission and had developed policy frameworks to screen funding opportunities. They were prepared to forego funding opportunities to retain the integrity of their focus and mission.

The range of responses reflects the complexity of pursuing alternative sources of income as well as the enormously diverse range of nonprofit and voluntary organizations operating in Canada. It is not surprising that, reviewing the case studies conducted for this study, one sought out government project funding to expand its activities,¹⁸ while another decided to mount a capital campaign to finance the expansion of its theatre facilities in order to facilitate the expansion of its earned income activities (i.e., workshops, rental income). To expand and diversify resources, the national social service group chose to aggressively pursue corporate donations and sponsorships. The range and scale of activity is an important finding of this study.

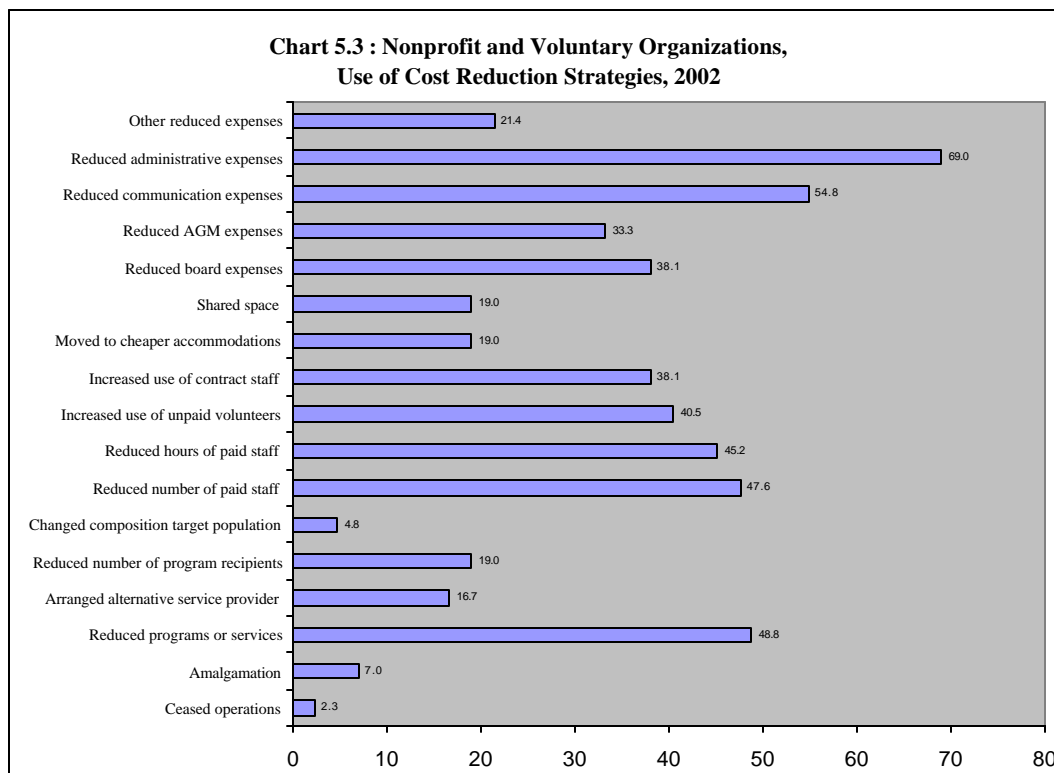
Organizations continue to pare expenses to the bone.

While nonprofit and voluntary organizations have been pursuing various strategies to diversify their resource base, they have also been looking inward, reexamining the ways in which they pursue their goals. The funding cuts of the early to mid 1990s precipitated a profound reorganization of the nonprofit and voluntary sector, especially for groups targeted in the downsizing. However, all organizations have undertaken to examine their activities, to streamline where possible, to refocus on mission. In many instances, this has taken place against a backdrop of increasing demand linked in no small part to government downloading and privatizations of services. Growing demand has been particularly acute among social services and health organizations who report increasing numbers of clients with increasingly complex problems. “Newer” nonprofit and voluntary organizations – such as associations serving ethnocultural communities – have similarly found it difficult to establish a funding base within an environment of resource scarcity.

These pressures have graphically come together on the balance sheet, as expenses have increased and pressures to reduce and streamline expenditures have intensified. Of organizations surveyed, 64.0% have experienced an increase in their level of organizational expenses over the last five years, while 28.0% have experienced no significant change (N=50). Environmental, ethnocultural, and social service groups report highest run up in costs: 85.7%, 80.0%, and 80.0% respectively.¹⁹ At the same time, eight out of ten groups (81.6%) have sought to reduce expenditures (N=49). These efforts are not exclusively tied to increases in organizational costs. As noted in Chapter 3, the very structure of funding which prohibits or limits spending on key administrative and organizational functions, creates conditions of scarcity within the organization. Even organizations that experienced overall increases in revenues as many of the organizations surveyed did experience problems covering organizational expenses, compromising program delivery and the goals of nonprofit and voluntary organizations.

Nonprofit and voluntary groups have pursued a number of strategies to reduce expenditures, ranging from reducing administrative expenditures through the use of in-kind donations, cheaper office supplies, and going without (69.0%) to ceasing operations altogether (2.3%). Internal and external communications activities were commonly targeted in efforts to contain costs. Over half of organizations (54.8%) surveyed reduced expenses related to communications (i.e., newsletters). Organizations have been forced to cut back programs and services to reduce expenditures. Almost half (48.8%) reported that they had reduced programming, while 16.7% arranged with another organization to deliver some or all of their programs. One in six groups (19.0%) reduced the number of beneficiaries or clients; 4.8% deliberately undertook to change the composition of their clientele, reducing the number of hard-to-serve clients in order to minimize costs (N=42).

In approaching labour costs – the largest budget item for any nonprofit and voluntary group – 47.6% of organizations reduced the number of paid staff; 45.2% reduced the hours of paid staff (e.g., from full-time to part-time); 38.1% increased the use of contract staff; and 40.5% increased the use of unpaid volunteers. Governing mechanisms were also subject to review. Over one-third of groups (38.1%) reduced the expenses related to Board meetings, while another 33.3% reduced expenses related to Annual General Meetings. Organizations also looked at organizational infrastructure. In addition to cutting administrative expenses, a number of nonprofit and voluntary groups surveyed moved to cheaper accommodation (19.0%), arranged to share office space with another organization (19.0%), and in a few cases, formally amalgamated with another organization (7.0%) (N=42).



Source: CCSD Funding Study (N=42)

Other strategies for reducing expenses were noted such as implementing new accounting and donor-based software; arranging to buy bulk supplies with other organizations when possible; renting space out to other organizations; and cutting back on building maintenance. Some groups had their staff work from their homes in order to reduce or eliminate the need to maintain an office. Focus group participants also noted that it was common to defer expenditures for as long as possible. Similarly, many delayed bill payment for as long as possible in order to manage highly unpredictable cash flows. To this end, organizations also delayed hiring people or left positions unfilled for long periods of time, all in an effort to reduce and manage expenditures. (Please see section 6.1).

Overall, reducing the numbers and the hours of paid staff was identified as the *most* effective means of reducing expenditures: almost one-third of groups (30.6%) indicated that they had employed the strategies (N=36). One out of five (19.4%) indicated that they had had success in reducing costs by cutting administrative or overhead expenses such as rent where possible and buying in bulk with other organizations. One out of 10 (11.1%) had successfully lowered expenditures by reducing and/or arranging to coordinate program delivery with other organizations. As well, a number of groups (11.1%) mentioned that they were able to reduce costs through the introduction of technology, such as communicating with members via the internet.

Interestingly, reducing the number of paid staff, shifting to contract employment, and reducing hours of employment, together, were also identified as the *least* effective means of reducing costs by half of the organizations surveyed (50.0%) (N=36). Using volunteers in place of paid staff was not successful according to 14.3% of groups. Similarly, 14.3% indicated that reducing administrative expenditures was not an effective cost cutting strategy.

Overall, respondents noted that there were some positive benefits of having to review organizational operations in order to find cost savings. Some noted that the situation has generally forced organizations to devise “some new, more creative ways of doing things” (#16). Others said that it was good to keep a stricter eye on the bottom line. This sentiment is in keeping with the general sentiment expressed by the organizations surveyed that adopting a more “business-like” approach to management was a positive development for the nonprofit and voluntary sector. Another organization stated that the search for cost efficiencies has forced the organization to concentrate on building relationships in the community, and that this has been positive for the group.

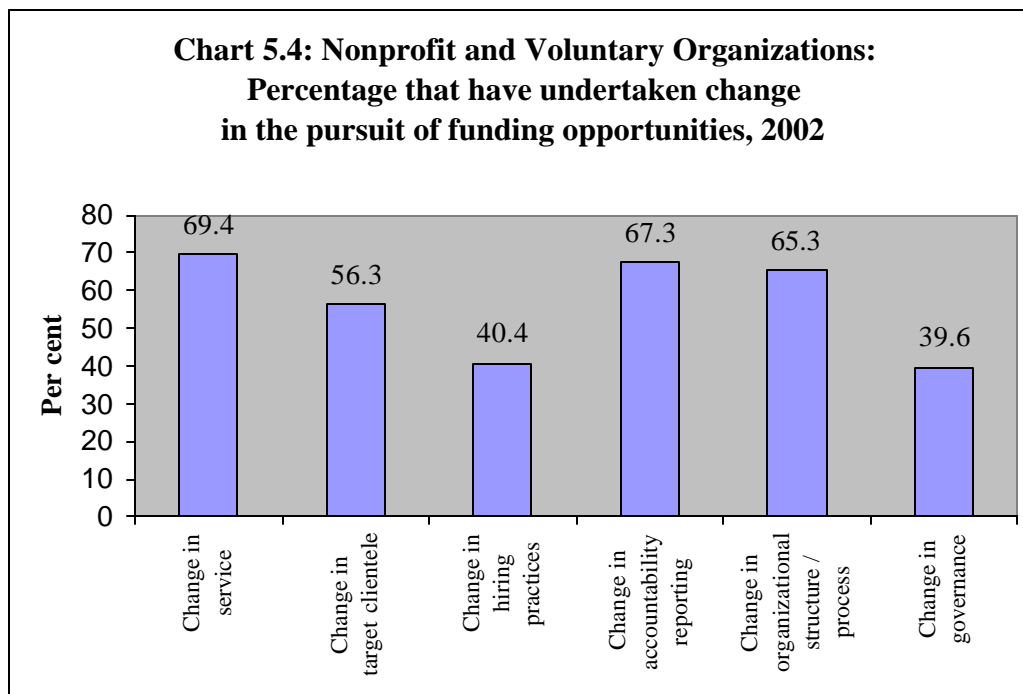
However, the negative impacts were evident as well. Participants were very clear about the sheer futility and inefficiency of cutting staff, in effect, trying to do the same with less. Initial savings were invariably undermined by the costs associated with increasing stress and burnout among remaining staff, by the costs of using contract staff over long periods of time, and by the costs related to staff turnover generally. The quality of programming was inevitably affected by staffing change: “Contracted staff don’t always stay or worse show no reason to put in the extra effort because it’s close ended” (#20). Using volunteers in place of paid staff was not always practical or possible. At a fundamental level, the loss of staff seriously undermined the capacity of the organization to meet mission, as valuable experience and knowledge was inevitably lost through this process. As one group said: “By reducing staff, we lost the ability to administer effectively” (#3).

As well, nonprofit and voluntary organizations remain reluctant to cut costs related to programming. From the perspective of meeting mission, reducing the scale and scope of activity substantially undermines the capacity of groups to achieve their goals – particularly in the face of constant or increasing demand for services. One arts group told us: “By doing the co-productions, we lost our profile in the community” (#3). As a result of cutbacks, another said we “[f]eel restricted in programming and growth” (#11). “We cannot compete for as many projects, tasks that we wanted to” (#8). More generally, cutbacks have been demoralizing. Organizations are forced to “reduce ... costs at the same time as they keep escalating” (#17). “You become so lean, everybody today is doing what six years ago was three jobs” (FG: RS).

As a result of the emerging funding regime, many organizations find themselves having to cut back service irrespective of demand because they cannot find the funding necessary or cannot operate within the strict parameters of those sources that are available. Among social service, community benefit organizations, and groups serving ethnocultural communities in particular, there was an acute sense of frustration and distress in not being able to serve their communities. Cost cutting has meant: “Increase in stress, poorer communication, lack of professional workspace, fear among staff of loss of work, poorer delivery, missed opportunities” (#5).

Organizations are undertaking extensive change to compete in today’s funding environment.

The process of change in any organization is ongoing. Above we have documented the range of ways that nonprofit and voluntary organizations are rethinking and reorganizing the mix of revenue sources and mechanisms as well as cutting back in various areas of the organization. Overall, the majority of organizations surveyed have made substantial changes to better position themselves in the emerging funding environment. The following chart summarizes these changes. Two-thirds of respondents have changed their services and programs, have changed or adopted new program evaluation and accountability reporting mechanisms and have also made changes in their organizational structure and processes – all in the name of pursuing new funding opportunities. Just over half have shifted and/or expanded their target clientele. Four out of ten have introduced changes in their hiring practices and modified their governing structures.



Source: CCSD Funding Study (N=48)

We have also summarized these findings in a single index. This index assesses the degree to which nonprofit and voluntary organizations have undertaken to change or modify their organizations to better pursue funding opportunities. Three-quarters of the organizations surveyed undertook moderate (42.6%) or extensive (31.9%) change to adapt to new funding realities. Change was modest for one-quarter of the groups (25.5%) (N=47). Changes were most pronounced among organizations serving ethnocultural groups (100% reported extensive change), followed by recreation, sport, arts and cultural groups. Environmental groups, on the other hand, were more likely to have resisted changing in response to funding pressures (42.9% reported modest change).

It is difficult to say definitively whether these groups would have made some of these changes regardless of the funding realities. Certainly, formalization and professionalization, to name two examples, are part of the process of developing from grass-roots groups to established organizations with paid staff. This said, the desires of funders did propel change. When asked whether organizational change was requested by existing or potential funders or decided internally, almost half of respondents (47.5%) acknowledged that change was a result of internal and external pressures. Four out of ten (42.1%) attributed the pressure for change to internal pressures, while one in ten (10.5%) said that pressure for change stemmed primarily from funders (N=38). Organizations serving ethnocultural groups were the most likely to say that pressure for change emanated from external funders, while recreation, sport, arts and cultural groups as well as environmental groups were more likely to attribute pressure to internal sources.

5.4 Conclusion

By the end of the 1990's voluntary sector organizations were showing serious signs of stress. Evidence was mounting on all fronts that the new approach to financing services was not working. Voluntary sector organizations reported difficulty with ever increasing accountability requirements; rigid funding policies and practices that impeded service delivery, funding contracts that did not support organizational capacity, or in some instances, even cover the actual cost of program delivery. Voluntary organizations find it increasingly difficult to meet their legal obligations to staff and many lack the organizational capacity to sustain fundraising efforts. Voluntary sector funding is increasingly unstable and short term. Voluntary sector organizations report a general failure to cover the growing shortfalls in government funding with other sources of funds. (Eakin, 2001: 2-3)

This is a summary of the situation facing many nonprofit and voluntary organizations in Canada today. The changing funding environment reflects, we have argued, the emergence of a new funding regime, one that threatens the continued sustainability of nonprofit and voluntary organizations. Pressure from funders is undermining the unique qualities of nonprofit and voluntary organizations, eroding the boundaries with the private market on the one hand, and with government on the other. As the evidence presented in this chapter illustrates, the nonprofit and voluntary sector is struggling to find its footing in this new reality, with varying degrees of success. Certainly the ingenuity, energy and vision that have characterized the nonprofit and voluntary organizations in the past still drive the sector. The nonprofit and voluntary sector will survive this current transition, but it remains to be seen in what form and how it will serve the public good.

Endnotes

¹ In order to get a sense of the intensity of the impact of the emerging funding regime, we created an index of potential impacts. We divided respondents into three groups: those reporting low impact; those reporting moderate impact; and those reporting high impact. We also looked at the impact scores of the different subsectors. All organizations serving ethnocultural communities (100%) and three-quarters of community benefit groups (75.0%) and health organizations (75.0%) reported moderate or high impacts related to funding change. Seven out of ten social service groups (70.0%) and two-thirds of recreation, sport, arts and cultural organizations (67.7%) and environmental groups (67.7%) reported moderate or high impacts.

² In the survey, core funding is defined as funding regularly received on an ongoing basis that covers among other things basic organizational or administrative costs. Project or program, by contract, was defined as funding that is often short term and conditional upon the receipt of identified deliverables. As well, restrictions are attached to the use of project or program funds. The average here refers to the trimmed mean. The average for funding attributed to projects and program at 61.6% is slightly higher than what one might expect looking at the share of the different funding sources for this group of nonprofit and voluntary organizations in Table 5.14.

³ Competition for competitively tendered contracts was not as intense as the competition for

grants: 48.6% noted an increase in competition for contracts compared to over eighty per cent who reported increased competition for grants. This finding clearly illustrates the desirability of grant income for nonprofit and voluntary organizations. As we see in Chapter 4, however, the availability of grant income has declined. Consequently, competition has increased.

⁴ Cost overruns are considered the responsibility of the organization. Funders expect organizations to cover shortfalls with a “contribution”. Cost overruns are also considered the responsibility of for profit providers; however, they are allowed much greater latitude in negotiating their contracts which price in non program costs such as administration and profits.

⁵ Nonprofit and voluntary organizations and charities in particular are not prohibited from carrying financial reserves. Rather, the Canadian Customs and Revenue Agency requires that at least 80% of receipted donations in a given fiscal year must be spent in the following year on charitable purposes. The Agency monitors the disbursement quota of charities closely to ensure compliance with tax regulations.

⁶ We conducted a content analysis of our focus groups to identify the central ways in which current funding trends are affecting nonprofit and voluntary organizations. Concerns were expressed most frequently regarding human resources (35.4%), followed by the impact of funding practices on services, activities and beneficiaries (22.4%), and financial management (22.0%). The issues of governance and accountability, and autonomy were raised less often, accounting for 10.5% and 9.7% of the impacts discussed respectively. The theme of services and programs was raised most frequently in the arts and culture focus group. Human resource issues dominated the discussion in the community services focus group held in New Brunswick. Financial management and governance and accountability were raised more often in the focus group with environmental groups compared to the others that we held.

⁷ Some groups noted that it was in fact very difficult to secure benefit coverage. Even when groups of nonprofit and voluntary organizations banded together to apply for a group benefit package, insurance firms were loath to extend coverage because of the uncertainty of funding. This is an acute problem in many areas of the nonprofit and voluntary sectors.

⁸ According to the 2000 *National Survey of Giving, Volunteering and Participating*, most volunteering events and most volunteer hours were directed toward five types of organizations. Arts, culture and recreation (including sports) accounted for the highest percentage of volunteer events (23%) and volunteer hours (26%). These were followed by social service organizations (20% of events and 20% of hours), religious organizations (14% and 16%), education and research organizations (13% and 11%), and health organizations (13% and 9%). Other types of organizations (including environmental groups and international development) accounted for the remaining 17% of both events and hours (Hall, McKeown and Roberts, 2001: 40)

⁹ See Valerie Howe and Paul Reed, *Study of Voluntary Sector Organizations in Ontario in the 1990s: A Report to Participating Agencies* (Ottawa: Statistics Canada, 1999). As well, see Social Planning Council of Ottawa-Carleton, *Doing Less with Less: Report of the 1997 Ottawa Carleton Agency Survey*, Spring 1998; Municipality of Metropolitan Toronto, et al. *Profile of a Changing*

World: 1996 Community Agency Survey, May 1997.

¹⁰ See Voluntary Sector Research Consortium, *The Capacity to Serve: A Qualitative Study of the Challenges Facing Canada's Nonprofit and Voluntary Organizations* (Toronto: Canadian Centre for Philanthropy, March 2003).

¹¹ See also Tendai Musodzi Marowa, "How the law of charities and advocacy can be changed to better serve immigrants and refugees," Paper prepared on behalf of the Ontario Council of Agencies serving Immigrants, September 2001.

¹² Between 1997 and 2001, the number of organizations receiving income from a diversity of sources increased. Organizations relying on government funding sources increased from 87.5% in 1997 to 93.5% in 2001. The percentage of organizations surveyed tapping sources of earned income increased by almost 10 percentage points, from 68.8% to 78.1%, and those tapping sources of private giving increased by almost 16 percentage points, from 78.1% to 93.8%.

¹³ Key informants noted that an important shift in thinking is underway with respect to membership. The traditional model of many nonprofit and voluntary organizations is to solicit members to support the mission and goals of the organization, as well as to participate in organizational activities. Members pay a fee, and in turn, receive a product or service that takes many forms. They are also afforded the right to participate in setting the direction for the group through the election of members to governing boards of directors and other forums. The membership relationship is the foundation of the nonprofit and voluntary organizations; members serve as both the source of accountability and legitimacy for nonprofit and voluntary groups. However, the financial cost of maintaining and serving members can be very high. Anecdotal evidence suggests that membership can be a losing proposition for many nonprofit and voluntary sector groups. Moreover, the difficulty in sustaining an active membership in the organizations activities is also problematic. For example, typically few members participate in the election of directors.

The answer for some nonprofit and voluntary groups has been the revisit the relationship between the organization and member, to establish varying levels of service and participation, to more closely align the costs of membership services and membership fees. Thus memberships can range from a "passive" investment in the organization – members support the group to represent their interests for example – to more active forms where there is greater participation through the exchange of goods and services or direct participation in the organization.

In an alternative development, some groups are reconsidering the very definition of membership itself. Rather than "belonging" to the group, with reciprocal rights and responsibilities, some nonprofit and voluntary organizations are adopting a broader defining members as individuals or groups who participate in the group's activities. For example, a recreation group that participated in this study now identifies individuals who take part in their leadership training programs and other activities as members. They undertake to work with this larger group of these interested people or organizations as they develop and pursue future activities. It is no surprise that groups that largely rely on earned income are exploring alternatives to traditional, more costly, forms of membership.

¹⁴ See Rashmi Luther, “Ethnocultural/Ethnoracial Advocacy Groups, State Funding and Charitable Tax Status,” Unpublished Paper, October 2001. Available at www.impacs.org.

¹⁵ It is also possible that organizations reported “fee-for-service” activity under this heading, thus increasing the potential scale of commercial activity in the nonprofit and voluntary sector. For our purposes, commercial activity is designed to produce a surplus for the organization. Fee-for-service activities are designed to recoup, at least in part, the costs of the product or services. They are certainly a form of earned income, but not a commercial activity *per se*.

¹⁶ Over half of social service groups, recreation, sport, arts and cultural organizations and environmental groups viewed “commercialization” as positive, compared to health organizations, community benefit groups and organizations serving ethnocultural communities.

¹⁷ Dart and Zimmerman illustrate these challenges in their study of two Canadian nonprofit organizations engaged in commercial activity (Dart and Zimmerman, 2000). One organization was a medium-sized social service organization with an annual budget of \$1 million and 14 full-time staff, operating an Employee Assistance Program. The second group was an environmental organization with an annual budget of \$300,000 that operates a used clothing collection service, where twice a year the group organizes a clothing drive and then sells the textiles to a “reseller.” In both cases, the organizations were generating income directly and indirectly through these commercial ventures to support of the organization’s mission-related programs. They found that the commercial activities did not provide a steady long-term stream of income, calling into question the assertion by proponents such as Ryan and others that commercial activity provides a more stable funding base for nonprofits than other sources of income (Ryan, 1999).

¹⁸ Similar efforts to expand their earned income opportunities by increasing fee for service activities such as workshops and launching a commercial venture have not been as successful. The commercial venture failed.

¹⁹ It is important to keep in mind that this group of organizations also reports increases in revenues over this time period in the order of 35%, related in large part to the expansion of activity. Overall, however, the larger number of study participants noted the increase in costs related to doing business, everything from rents to insurance costs. Indeed, the groups note that project funders are particularly reluctant to increase funding levels – either through upward amendments or under new contractual agreements – to take inflation and other project expense increases into account.