

# THE CAPACITY TO SERVE

A Qualitative Study of the Challenges Facing Canada's Nonprofit and Voluntary Organizations

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## PREFACE

Canada's nonprofit and voluntary organizations are part of the fabric of Canadian life, providing opportunities for Canadians to address collective goals and contribute to their communities in meaningful ways. However, surprisingly little is known about the size and scope of these organizations, the contributions they make to Canadian society, or the challenges they face in fulfilling their organizational missions. *The Capacity to Serve* is the first report from the National Survey of Nonprofit and Voluntary Organizations (NSNVO), a project that is designed to build the body of knowledge about this important set of institutions.

The objectives of the NSNVO are:

1. to provide a preliminary assessment of the areas where organizations could improve their capacity to achieve their missions; and,
2. to collect comprehensive information about the breadth of the nonprofit and voluntary sector in Canada, the various types of organizations that make up the sector, and the areas in which they are active.

The NSNVO has two distinct phases. The initial phase was qualitative in nature, consisting first of a review of literature pertaining to the capacity of nonprofit and voluntary organizations. We then used focus groups and a small number of key informant interviews to examine the types of challenges that nonprofit and voluntary organizations may be experiencing. This report presents the findings of the first phase.

The second phase will consist of a quantitative assessment of the size, scope, and activities of nonprofit and voluntary organizations, their perceived capacity to fulfill their missions, and the challenges they may be experiencing. It will employ a national survey of more than 10,000 nonprofit and voluntary organizations. The survey will be conducted by Statistics Canada in the spring and summer of 2003. The results will be reported in the spring of 2004.

A consortium of nonprofit and voluntary organizations is responsible for conducting this research. With the Canadian Centre for Philanthropy serving as the lead organization, the consortium includes the Alliance de recherche universités-communautés en économie sociale à l'Université du Québec à Montréal, the Canada West Foundation (CWF), the Canadian Council on Social Development (CCSD), the Capacity Development Network at the University of Victoria, the Community Services Council, Newfoundland and Labrador (CSC), the School of Policy Studies at Queen's University, and the Secretariat on Voluntary Sector Sustainability of the Manitoba Voluntary Sector Initiative.



The Canadian Voluntary Sector Initiative (VSI) commissioned this research. The VSI is a joint undertaking between the voluntary sector and the Government of Canada. Its long-term objective is to strengthen the voluntary sector's capacity to meet the challenges of the future and to enhance the relationship between the sector and the federal government in order to better serve Canadians. The NSNVO is being conducted under the auspices of the VSI's Capacity Joint Table, one of seven joint tables created to undertake the work of the VSI.

The research was supported by funding from the Capacity Joint Table through the Social Development Partnerships Program of Human Resources Development Canada (HRDC). The views expressed in this publication do not necessarily reflect those of the Government of Canada.



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Finally, we would like to thank the many representatives of nonprofit and voluntary organizations who participated in our focus groups and interviews for donating their time and offering their candid perspectives on issues of concern and interest to their organizations.

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## EXECUTIVE SUMMARY

Nonprofit and voluntary organizations are increasingly recognized for the important role they play in Canadian society, but there are concerns that the full potential of their contributions is not being realized. This report presents the results of qualitative research that explored the capacity of nonprofit and voluntary organizations to fulfill their missions and achieve their objectives. Our consultations with more than 300 representatives of nonprofit and voluntary organizations across Canada highlighted the resourcefulness and resilience of these organizations, and pointed to the many strengths they possess. However, many participants acknowledged that their organizations are facing substantial difficulties in obtaining the appropriate financial and human resources needed to deliver their programs and services to Canadians.

This study is part of a larger project: the National Survey of Nonprofit and Voluntary Organizations (NSNVO). The results reported here are based on a nation-wide series of 36 focus groups that were held with representatives of nonprofit and voluntary organizations in April and May of 2002, and a smaller number of interviews with representatives of national organizations.<sup>1</sup> For the focus group sessions, organizations were selected from various sources, including a random sample of registered charitable organizations; a selection of nonprofit organizations without registered charity status; and, lists provided by members of the Voluntary Sector Research Consortium. For the purposes of this study, nonprofit and voluntary organizations are defined as organizations that have a structure, are non-governmental, do not distribute profits, are self-governing, and benefit from some degree of voluntary contribution of time or money. They include various types of organizations such as registered charities and community groups.

The study is guided by a conceptual model of organizational capacity that distinguishes among three types of capacity: financial, human resources, and structural capacity. Structural capacity includes relationship and network capacity; infrastructure and process capacity; and, planning, development and research capacity. Organizational capacity is assumed to be influenced by a variety of external factors, including: environmental constraints and facilitators (e.g., legal and regulatory frameworks, public trust, societal values), access to resources (e.g., financial resources, human resources) and historical factors (e.g., past behaviours, ethical violations, perceived contributions).

The research results address the following questions:

- What do nonprofit and voluntary organizations perceive to be their greatest strengths?

<sup>1</sup> National organizations are defined as organizations that have a national mandate, or have subsidiary chapters or offices throughout the country.

Despite many strengths, nonprofit and voluntary organizations face financial and human resources challenges.

This study examined the organizational capacity of nonprofit and voluntary organizations, including their:

- financial capacity;
- human resources capacity; and,
- structural capacity.





- What types of external factors constrain the ability of nonprofit and voluntary organizations to fulfill their missions or meet their objectives?
- What types of capacity challenges are organizations experiencing?

Although the missions and objectives of organizations differ widely, as might be expected with such varied areas of activity as Arts and Culture, Sports and Recreation, Health, Social Services, the Environment, International Development, and Religion, they all share a common orientation: the pursuit of social and collective goals.

**Most nonprofit and voluntary organizations identified human capital – staff and volunteers – as their greatest resource.**

Most research participants pointed to human capital — the people who serve as paid staff and volunteers — as their organization’s greatest strength and the factor that most helps them to achieve their objectives. Many others identified the relationships and networks that their organizations have established with members, the community, and other organizations as their greatest strength. Some emphasized their organization’s abilities in the area of planning and development. Relatively few participants identified their financial capacity as a strength.

**Financial capacity issues pose the greatest challenges for nonprofit and voluntary organizations.**

Indeed, financial capacity issues pose the greatest challenges for the organizations we consulted. Although the need for more money was often identified, organizations more frequently expressed a need for “better money.” For participants, better money meant stable, longer-term funding that helps organizations plan and pay for core operating expenses, and gives them the autonomy to direct their services and programs to where they are most needed.

**Organizations expressed the need not just for more money, but for “better money” – stable, long-term funding that helps organizations plan and pay for operating costs.**

Participants also identified a number of external factors that they said present difficulties for their organizations. These included government downloading and funding cutbacks; a growing emphasis on project funding; increasing competition for scarce resources; declining availability of skilled and committed volunteers; mandated collaborations with other organizations; negative public perceptions of nonprofit and voluntary organizations; and negative media coverage.

**Short-term and project funding makes it difficult for organizations to pay for infrastructure, administration, and other organizational supports.**

Among all of the external factors cited, participants reported that their organizations have the most difficulty in dealing with the changing funding environment. They reported that the priorities of funders frequently change and that funding is being increasingly restricted to direct program costs, making it difficult for organizations to pay for infrastructure, administration, and other organizational supports that they need to implement programs. It was also reported that funding is often accompanied by onerous demands for financial accountability.

Financial capacity issues percolate throughout the nonprofit and voluntary organizations in this study, and exert a major influence on other key capacity areas. For example, a lack of financial capacity can lead to the need for more volunteers; more effective volunteer recruitment and management; volunteer training; more staff; staff training; improvements in internal systems; improvements in infrastructure and access to technology; and improvements in strategic planning and vision.

This study provides a preliminary picture of the capacity needs and challenges among a national sample of nonprofit and voluntary organizations. While the results from the consultations should not be regarded as conclusive, they nevertheless suggest a number of ways to strengthen the capacity of organizations to achieve their missions and fulfill their objectives. These include the development and implementation of:

- new funding models that provide nonprofit and voluntary organizations with the stability and support they need to develop human resources and organizational infrastructure, and to engage in long-term planning;
- new models of financial accountability that reduce the burden on nonprofit and voluntary organizations while providing funders with assurances that funds are being used appropriately;
- approaches to volunteer recruitment and management that meet the changing needs and interests of potential volunteers;
- strategies to reduce competition among organizations and increase opportunities to share infrastructure and other resources;
- strategies to help organizations provide effective training for paid staff, volunteers, and board members; and,
- strategies to improve public and media awareness of the value of nonprofit and voluntary organizations, their contributions to society, and their need for support.

Financial capacity affects all other areas of organizational capacity, such as the ability to recruit, manage, and retain qualified volunteers and staff.

This study points to the need for new:

- funding models;
- models of accountability;
- volunteer recruitment and management strategies;
- strategies to reduce competition and increase effective collaboration;
- strategies to train staff and volunteers; and,
- media and public awareness strategies.



## INTRODUCTION

Nonprofit and voluntary organizations are increasingly recognized for the important role they play in society. But there are concerns that the potential contributions of these organizations are not being fully realized. This report provides a qualitative assessment of the capacity of these organizations to contribute to Canadian life. We consulted more than 300 individuals representing all of the major sub-sectors of Canada's nonprofit and voluntary sector: Arts and Culture, Sports and Recreation, Education and Research, Health, Social Services, the Environment, Law and Advocacy, Housing and Development, International Development, Religion, Business and Professional Associations, and Fundraising and Volunteerism. Our consultations revealed that these organizations have unique strengths in their ability to harness the dedication and passion of the people whom they involve in their activities. However, these organizations also have difficulty obtaining the financial and human resources that they need to serve their members and the Canadian public.

This research was conducted as part of a larger project, the National Survey of Nonprofit and Voluntary Organizations (NSNVO), which is designed to improve understanding of the nonprofit and voluntary sector and to help strengthen the capacity of nonprofit and voluntary organizations to deliver benefits to the public. It is also designed to provide a benchmark that will make possible future assessments of changes in this key sector. The NSNVO has two major components. The first is a qualitative assessment of the strengths of nonprofit and voluntary organizations and the challenges they face in their capacity to achieve their missions. The second phase will involve a national survey of organizations to determine the size and scope of the nonprofit and voluntary sector, the various types of organizations that make up the sector, and the areas in which they are active.

The organizations we consulted appear to have substantial strengths in terms of human capital and their ability to draw on their relationships with people and on organizational networks. However, they also appear to be highly dependent upon external sources of revenue such as grants, contracts, and donations, and feel constrained by the restrictions that funders place on their support. According to the participants in our study, external funders are reluctant to provide long-term funding or to allow funding to be used to pay for administrative and infrastructure costs. Instead, funders want their funding to go primarily to support clearly targeted services, programs, or projects, according to priorities that funders themselves establish and frequently change. Participants reported being engaged in a constant search for sources of funding to support their organizations' programs and continually having to adapt to shifting priorities and demands for accountability. As a result, organizations experience a host of capacity challenges,





including difficulties in long-term planning, in recruiting and retaining paid staff and volunteers, and in supporting organizational infrastructure.

Many of the participants we consulted are proud of their organization's ability to offer services under difficult conditions, yet a number also believe that they are perceived as being inefficient, ineffective, and "second-rate." Some participants expressed a need for greater understanding by the public and funders of the challenges they face.

This report presents the results of qualitative research that explored the strengths and the challenges faced by nonprofit and voluntary organizations. We begin by defining the nonprofit and voluntary sector and by providing a conceptual model that summarizes the key capacity areas and their relationships to one another. We then review our findings about the capacity challenges reported by the organizations in our study and suggest ways to support and further strengthen the nonprofit and voluntary sector.

## **Defining the Nonprofit and Voluntary Sector**

A number of terms are used to describe the various organizations that are of interest to the NSNVO — voluntary sector, nonprofit sector, charitable sector, third sector, civil society, community-based sector, and independent sector. Following earlier work by Febraro, Hall, and Parmegiani (1999), we have chosen to use the term *nonprofit and voluntary* to describe the sector and the organizations that it comprises.

The nonprofit and voluntary sector is composed of a diverse array of organizations, including social service organizations, hospitals, universities, museums, sports and recreation organizations, shelters for the homeless, arts councils, food banks, organizations that raise funds to support medical research, self-help groups, places of worship, social clubs, trade associations, and advocacy groups. Although widely disparate in their areas of activity, all nonprofit and voluntary organizations share a common set of characteristics that distinguish them from government and for-profit organizations.

The NSNVO formally defines nonprofit and voluntary organizations according to criteria established by the International Classification of Non-profit Organizations (Salamon & Anheier, 1997). Organizations are considered to be part of the nonprofit and voluntary sector if they are:

- organized (i.e., have some structure and are institutionalized to some extent, but not necessarily legally incorporated);

- nongovernmental (i.e., are institutionally separate from governments);
- nonprofit-distributing (i.e., do not return any profits generated to their owners or directors);
- self-governing (i.e., are independent and able to regulate their own activities); and,
- voluntary (i.e., benefit to some degree from voluntary contributions of time or money).

The NSNVO focuses on organizations that meet these criteria and that are also formally incorporated or registered under specific legislation with provincial, territorial, or federal governments. Incorporated organizations are more likely to have some degree of permanence and are, therefore, more likely to have the potential to respond to targeted initiatives to improve capacity.<sup>2</sup>

## **Defining and Understanding Capacity**

The NSNVO research is intended to broaden understanding of the capacity of nonprofit and voluntary organizations to fulfill their missions and serve the needs and interests of Canadians. Our work is guided by a conceptual model that subdivides capacity into three components and outlines the external factors that influence these capacities. However, before we introduce the model, it is important that we clarify what we mean by capacity.

An organization can have many capacities, all of which are important. However, the main focus of our research is on the capacity of nonprofit and voluntary organizations to fulfill their missions and mandates. Assessments of capacity are primarily assessments of the ability of organizations to undertake their work and of the factors that serve to constrain or impair the ability of organizations to fulfill their missions. The United Nations Development Program, for example, defines capacity as “the ability of individuals and organizations or organizational units to perform functions effectively, efficiently, and sustainably” (1998: 5). In a similar vein, the Canadian Panel on Accountability and Governance in the Voluntary Sector (PAGVS) defines capacity as “the human and financial resources, technology, skills, knowledge and understanding required to permit organizations to do their work and fulfill what is expected of them by stakeholders” (1999: 118).

Capacity refers to the ability to perform or produce and is often used in reference to potential (as in “maximum capacity”). Capacity is multidimensional. An organization’s overall capacity to fulfill its mission depends on a variety of specific capacities. In addition, different organizations can fulfill similar missions by drawing on different capacities. Take, for example, two organizations that

<sup>2</sup> Our definition of nonprofit and voluntary organizations includes organizations that are not incorporated but that have some organizational permanence as might be evidenced by holding regular meetings and having rules of procedure or articles of constitution. However, these unincorporated organizations will not be part of the survey population for the NSNVO because of the difficulties associated with identifying and locating them.

provide “meals on wheels.” One may rely on its ability to attract corporate sponsorships and funding to hire staff to provide services, while the other may draw on its ability to engage volunteers.

The concept of *capacity* is also closely linked to that of *capital* in that the capacity of an organization to work toward a particular objective depends upon the capital it is able to deploy. In economic terms, capital refers to the goods, assets, and other physical resources that can be deployed to produce goods or services.

The growth in the knowledge economy has spurred interest in other kinds of organizational capital. The notion of capital has been broadened to include intellectual capital or the “intangible assets” of organizations, such as the knowledge they create, their brands, and their ability to innovate, and acknowledges the importance of these assets for organizational performance (Roos, Roos, Dragonetti, & Edvinsson, 1998; Stewart, 1997; Sullivan, 1998). Intellectual capital distinguishes human capital (the people or thinking part of the organization) from structural capital (the non-thinking part, or what’s left when the people go home; Roos et al., 1998). This research is particularly relevant to efforts to assess the capacity of nonprofit and voluntary organizations because much of their work appears to be knowledge-intensive.

In the analysis that follows, the capacity of nonprofit and voluntary organizations to achieve their missions and objectives is considered to be dependent upon three types of capital that organizations can deploy: financial capital, human capital, and structural capital.

### **A Conceptual Model of Nonprofit and Voluntary Organizational Capacity**

To guide our research, we have developed a conceptual model of nonprofit and voluntary organizational capacity that is derived primarily from the literature on intellectual capital (e.g., Edvinsson & Malone, 1997; Roos et al., 1998; Stewart, 1997; Sullivan, 1998). Our conceptual model of organizational capacity (see Figure 1) is adapted from the work of Edvinsson & Malone (1997), Nadler, Gerstein, & Shaw (1992), and Roos et al. (1998). As the model shows, the overall capacity of a nonprofit and voluntary organization to produce the outputs and outcomes it desires is a function of its ability to draw on or deploy a variety of types of organizational capital. An organization’s ability to develop or maintain its different types of capital depends, in turn, upon a variety of external factors such as the economy, the legal and regulatory framework in which it operates, and the availability of human and financial resources. Each of these is described in greater detail below.



## External Influences

Our model identifies three main types of external factors that can affect the performance of nonprofit and voluntary organizations.

1. **Environmental Constraints and Facilitators**, such as the political environment, public policy, the legal and regulatory framework, public trust and confidence in nonprofit institutions, societal values (e.g., individualism versus collectivism), societal needs, the demographic composition of the population, and the nature and extent of competition among nonprofits, businesses, and government. These factors are not assumed to be independent, as there are many interdependencies among them.
2. **Access to Resources**, such as financial resources, human resources, and technology. These are affected by many of the environmental constraints and facilitators described above.
3. **Historical Factors**, such as past behaviours, activities, and effectiveness (e.g., fundraising practices, the extent of ethical or unethical conduct, abuses of donor or public trust, perceived contributions), and norms and values (e.g., whether there is a particular ethos that might make careers in nonprofit and voluntary organizations attractive or unattractive, or that might attract or discourage funders).

## Organizational Capacities

There are three main types of organizational capacities that organizations can draw upon to achieve their missions and objectives. These are:

1. **Financial Capacity** – the ability to develop and deploy financial capital (i.e., the revenues, expenses, assets, and liabilities of the organization).
2. **Human Resources Capacity** – the ability to deploy human capital (i.e., paid staff and volunteers) within the organization, and the competencies, knowledge, attitudes, motivation, and behaviours of these people. Human capital is considered to be the key element that leads to the development of all other capacities. For example, the creation and maintenance of financial capital requires human capital with competencies in finance. Planning and development capital requires competencies in leadership and strategic management.
3. **Structural Capacity** – the ability to deploy the non-financial capital that remains when the people from an organization have gone home. There are three types of structural capacity:

- a. **Relationship and Network Capacity:** the ability to draw on relationships with clients, members, funders, partners, government, the media, corporations, volunteers, and the public.<sup>3</sup>
- b. **Infrastructure and Process Capacity:** the ability to deploy or rely on infrastructure, processes and culture; products related to internal structure or day-to-day operations (e.g., databases, manuals, policies and procedures); information technology; and intellectual property.
- c. **Planning and Development Capacity:** the ability to develop and draw on organizational strategic plans, program plans and designs (including fundraising and volunteer management), policies, and proposals.

### **Organizational Outputs or Outcomes**

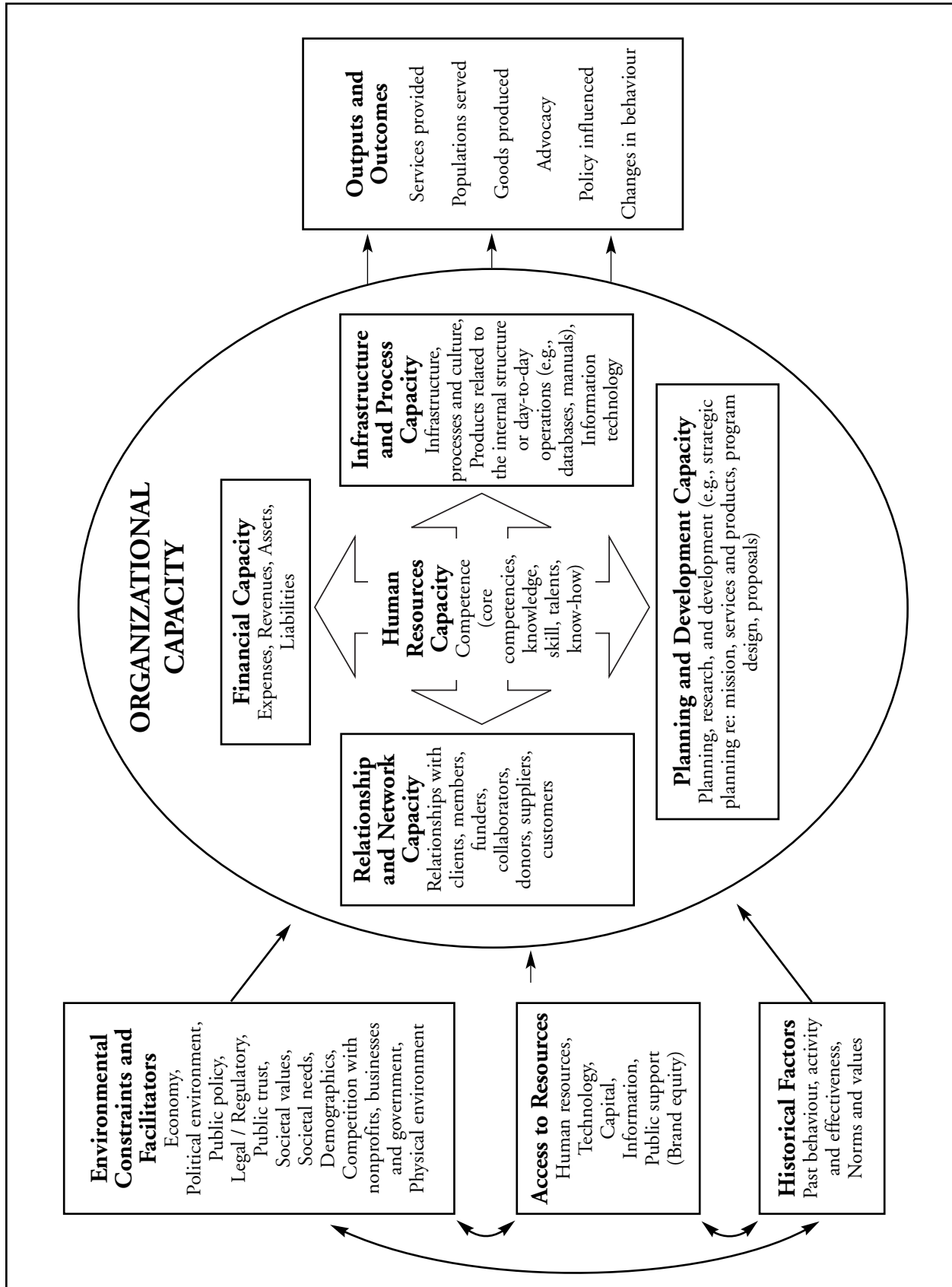
An organization's outputs and its intended outcomes depend upon the organization's capacities and its external environment. Outputs can vary widely among nonprofit and voluntary organizations and include the provision of services, such as theatrical performances, the delivery of meals to seniors, education, training, animal welfare services, or advocacy for a cause. Outputs also include the production of goods (e.g., meals or crafts) or the distribution of goods (e.g., recycled clothing or furniture). In our conceptual model, we have included outcomes with outputs to acknowledge that, for many nonprofit and voluntary organizations, outputs are secondary to the intended outcome of those outputs. For example, while the outputs of an organization like Meals on Wheels include the production and delivery of meals, its primary interest lies in the outcomes — the impact of those meals and the associated social contact with clients.



<sup>3</sup> *Relationship and network capital is similar to the concept of social capital, which refers to “features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit” (Putnam, 1995: 17). Social capital usually refers to capital shared within society or among groups of people or organizations; relationship and network capital is considered to be an asset of an individual organization.*



**Figure 1 – Conceptual Model of Organizational Capacity**



## The Research Strategy

Based on our conceptual model, we targeted four main areas for our study of the capacity of nonprofit and voluntary organizations. Using focus groups, we assessed the role that the following factors play in organizations' abilities to achieve their missions and objectives or in constraining them from doing so:

- *external factors* (e.g., funding, public attitudes, legal and regulatory frameworks);
- the *financial capacity* of organizations;
- the *human resources capacity* of organizations; and,
- the *structural capacity* of organizations (including relationship and network capacity, policy infrastructure and process capacity, and planning and development capacity).

Our conceptual model of organizational capacity suggests that human resources capacity is the most important element of internal organizational capacity. However, as we demonstrate, many nonprofit and voluntary organizations view external environmental factors, such as access to appropriate resources, particularly financial resources, as the critical determinant of organizational capacity.

Our study attempts to answer the following research questions:

- What do nonprofit and voluntary organizations perceive to be their greatest strengths?
- What types of external factors constrain the ability of nonprofit and voluntary organizations to fulfill their missions or meet their objectives?
- What types of capacity challenges are organizations experiencing?

In describing our findings, we have tried to give some sense of the prevalence of views expressed by using terms such as *most* to denote views expressed by a majority of participants, *many* to denote views expressed by a substantial number of participants, and *some* or *a few* to denote views expressed by a small number of participants. Statements about priority issues relate to the frequency with which an item was mentioned as a high priority.

The research involved a nation-wide series of consultations with a broad cross-section of representatives of nonprofit and voluntary organizations. Thirty-six focus groups were held in 13 communities across Canada to learn about the challenges that organizations face in working to fulfill their missions and achieve their organizational objectives. Groups were requested to discuss their perspectives about one of the following areas: financial, human resources, or structural capacity needs. To achieve regional representation, six consultations

were conducted in each of six regions: British Columbia; Alberta; Manitoba and Saskatchewan; Ontario; Quebec; and Atlantic Canada. A small number of interviews with representatives of national organizations were also conducted. Throughout this report, we use the term *consultations* to refer to the focus groups and interviews combined. All major sub-sectors were represented in these consultations, including Arts and Culture, Sports and Recreation, Education and Research, Health, Social Services, the Environment, Law and Advocacy, Housing and Development, International Development, Religion, Business and Professional Associations, and Fundraising and Volunteerism.

Appendix A provides a detailed overview of the focus group and interview methodology employed for this study, along with the strategy used to locate relevant literature. The specific questions posed at each consultation are listed in Appendix B.

Appendix C provides a summary of the relevant English-language literature on capacity issues. The literature we reviewed focused on the Canadian context whenever possible.

In Appendix D we present a review of French-language literature on capacity issues to provide some perspective on the ways in which Quebec's nonprofit and voluntary sector differs from that in other areas of the country. Quebec is unique among the provinces in the way it has embraced the concept of the social economy, permitting the pursuit of both social and economic objects as a central organizing feature of its nonprofit and voluntary sector (Vaillancourt & Tremblay, 2002).

In the sections that follow, we review the results of the focus groups and national organization interviews. We begin by discussing the perceived organizational strengths identified by participants in the research.



## PERCEIVED STRENGTHS

Most of the participants in our study identified human capital — the people who serve as paid staff and volunteers — as their organization’s greatest strength.<sup>4</sup> Many other participants said that the greatest strength of their organization was its relationship and network capital — that is, its relationships with its members, the community, and other organizations. Capacity in the area of planning and development was also seen as a strength by a number of study participants.

The overwhelming majority of participants identified their human resources as their greatest strength. Volunteers were the most frequently mentioned, followed closely by paid staff. It was clear from participants’ comments that nonprofit and voluntary organizations rely on the commitment and dedication of their staff and volunteers, as well as on their teamwork, talent, professionalism, flexibility, efficiency, and ability to focus on the organization’s vision.

Volunteers were especially recognized as “dedicated,” “devoted,” and “committed,” and occasionally noted as the organization’s “greatest resource.” Paid staff were similarly recognized for their commitment and enthusiasm, and praised for their ability to work efficiently with limited resources. A few participants also noted that hiring highly skilled or qualified staff provides substantial benefits for the overall operations of their organization. Participants who mentioned their board of directors as a strength stressed the value of board members’ clear vision, innovation, strong leadership, and long-term commitment in guiding the organization over time.

The second most frequently cited strength of nonprofit and voluntary organizations was their capacity to draw on the relationships they have developed with their members, their community, and other organizations.

Members were widely recognized as the underlying support system of organizations. The diverse skills, knowledge, and enthusiasm of members help organizations to achieve their missions.

The capacity to build and use networks with both for-profit and other nonprofit and voluntary organizations was another frequently cited strength. These networks allowed organizations to access and share resources, knowledge, and experience.

Participants also often pointed to the value of “broad and deep” community support, which provides organizations with access to key networks. Many

<sup>4</sup> Participants were asked, “What is your organization’s greatest strength in terms of its ability to achieve its objectives?”

“It’s people - committed, talented, resourceful people.” – *Winnipeg*

“Volunteers are the icing on the cake. They enable us to do more.”  
– *Quebec City*

“A committed, widely informed membership.”  
– *Saint John*

“Access to key leaders in business and labour to support the cause.”  
– *Toronto*





**“Last year, 114 volunteers gave 11,135 hours, which is equal to the time of six people working full-time.”**

*– Quebec City*

**“Our broad representation of local citizens who keep us informed and current to the local neighbourhood needs.”** – *Vancouver*

**“An incredibly strong reputation, both with donors, the general public, and with the federal government”**

*– National Organization*

participants recognized the vital importance that “grassroots” networks play in the success of their organizations, allowing them to stay abreast of the needs of the communities they serve.

Some participants pointed to the importance of their organization’s history, reputation, and familiarity with the public as its key strength. Such positive “branding” is a type of relationship and network capital. This point was raised by representatives of organizations that have established themselves over time because of their strong programs, broad scope, or the popularity of their cause.

Strengths in the area of planning and development were also identified by a few participants, most of whom represented large organizations. They cited openness, innovation, flexibility, responsiveness, and business experience and expertise as major contributors to their organization’s capacity to deal with both new and ongoing challenges and opportunities.

Less frequently mentioned strengths included donor support, organizational structure, a propensity for risk-taking, and the organization’s knowledge base. Participants also identified the strength of their programs. By this, they meant high quality, appropriately designed programs that reflect an understanding of client needs and that fit with the needs of the community.

The least frequently cited strength of nonprofit and voluntary organizations was financial stability. This strength was expressed by only a few participants whose organizations had secure funding sources. As this report demonstrates, financial issues pose the greatest capacity challenges for the organizations in our study.



## THE EXTERNAL CONTEXT

Canadian nonprofit and voluntary organizations rely to a considerable extent on external support for the resources they need to carry out their work. They depend on institutional funders, such as governments, private foundations, and corporations; individual donors, who support them through charitable giving; and volunteers, who contribute their time to sit on boards of directors and to deliver programs and services. As such, the capacity of nonprofit and voluntary organizations to carry out their missions and achieve their objectives is influenced by changes in the external environment that affect the nature and supply of these resources.

Organizations that participated in our consultations identified a number of factors in their external environment that are affecting their financial, human resources, and structural capacities. Of all the external factors cited, the one that organizations have the most difficulty dealing with is the changing funding environment.

The factors that pose the greatest funding challenges to organizations include the following:

- government downloading of services coupled with funding cutbacks;
- a growing tendency for funders to support short-term projects rather than long-term activities and operational or core costs; and,
- increasing competition among nonprofit and voluntary organizations for scarce resources.

The second most significant factor was the change in the supply of volunteers. Many organizations reported a decrease in the availability of skilled and committed volunteers, especially those interested in management and administration.

Other external influences mentioned by participants included mandated collaborations with other organizations that are often complex and time-consuming to undertake and maintain, negative media coverage, and inaccurate public perceptions about the needs and strengths of nonprofit and voluntary organizations.

In this section, we give context to our findings on organizational capacity by outlining the changes in the environment in which nonprofit and voluntary organizations are working and by explaining the challenges posed by these changes.

“There are very few organizations interested in supplying operating funds to help pay for the lights. That’s one of the biggest challenges.” – *Calgary*

“Everyone around this table is applying for probably the same grants and to the same foundations. So there is competition in the community for funding.” – *Victoria*

“The government, over the last ten years or more, has started to download services onto the community. The gaps are now being filled by the community but the resources are not coming with that download.” – *Vancouver*



## **Changes in the Funding Environment**

### **Government Downloading and Cutbacks**

In most of our consultations, participants identified problems that they attributed to the impact of government downloading and to cutbacks in government funding. Governments were reported to have decreased funding to nonprofit and voluntary organizations, and to have changed the way in which they provide funding. Many organizations reported that the resulting decline in funding and in discretionary resources was challenging their ability to respond to increasing needs in their communities.

Some participants reported that reductions in the number of government staff and the high degree of turnover in government departments mean that they have to spend extra time and energy to establish links with new contacts. This lack of continuity reduces access to funding and complicates financial reporting because of the need to orient new staff to organizational activities, programs, and reporting procedures.

### **Funder Emphasis on Project Funding**

Many participants believe that there has been a shift over time away from core funding, which supports organizations as a whole, to project funding, which is targeted to specific programs or services. Most reported that funders are now more likely to provide project funding, and that this type of funding is often time-limited and allows organizations little discretion in how it can be applied. Many organizations noted the difficulty they have in trying to use project funding to pay for administrative support and infrastructure. This leads directly to problems in recruiting and retaining paid staff. It also leads indirectly to difficulties with volunteer and board management because of the role that staff play in supporting volunteers and board members. Because project funding is typically short-term in nature, it also places constraints on the ability of organizations to engage in long-term planning. The restrictions placed on how funding can be used also appear to complicate financial management and planning. For example, one funder may agree to cover the cost of rent while another may only cover the cost of salaries.

Participants reported that funder expectations and priorities can create additional pressures. For example, funders appear to overestimate the capacity of organizations to do long-term planning, to access and use technology, and to manage financial systems. Organizations are struggling to adapt to constantly changing funding priorities, particularly on the part of

**“If we had an operating budget, we would stop playing cat and mouse with the government.”**  
– *Montreal*

government funders. These changing priorities, especially when combined with short-term project funding, make it difficult to do long-term planning.

## Problems with Corporate Support

A number of participants, particularly those from smaller organizations and in smaller communities, reported difficulty in accessing funding from corporations and businesses. According to these participants, corporations are deluged with funding requests. In one community, participants suggested that corporate charitable giving has been centralized in head offices and that businesses tend to allocate funding to the larger metropolitan areas, larger organizations, and “safe” causes. Participants also reported that businesses appear to be putting up more walls between applicants and corporate funding committees, allocating their funds more strategically, and avoiding higher-risk organizations. A number of participants, particularly from smaller organizations, identified a lack of human resources skills to build relationships with corporations.

“I’m not happy with the level of corporate sponsorship. I think that the corporations in Canada in general do not show a civic-mindedness. It’s all about marketing and they like to create their own programs.” – *Regina*

## Government Funding Policies and Practices

Many participants expressed frustration with what they perceived to be a lack of understanding or awareness on the part of government about how their decisions affect nonprofit and voluntary organizations. Some of the problems identified were:

- **Delays in receiving funds.** In cases where organizations have been told that they will be given project funding, there are often delays between the time the project starts and when the organization actually receives the funds. These delays can pose a variety of financial management problems, particularly for smaller organizations with modest revenues.
- **Difficulty in getting funding advances.** Some participants reported that government funders were reluctant to provide funding before expenses were incurred, requiring organizations to carry these expenses until payments are received. This appeared to be more of a problem for smaller organizations that could not afford to “front” the expenses.
- **Inconsistent reporting and compliance requirements.** A number of participants reported that government departments and agencies have different reporting and compliance requirements. This was a particular problem for organizations providing services that are funded by more than one government department.

“The expectation of funders is that they want accountability, they want planning, they want all of those pieces. And yet they’re only willing to pay for a portion of it.” – *Vancouver*

“It is not fulfilling to finance a working capital fund. A funder prefers to finance a project that shows him in a flattering light.” – *Montreal*





- **Audit costs.** Some organizations that received federal government funding identified audit expenses as a problem because the cost of hiring an accounting firm to perform an audit can be overwhelming for a smaller organization.
- **Government regulatory framework.** Many participants said that their financial management is complicated by what they perceive as constantly changing Canada Customs and Revenue Agency rules and regulations.
- **Lack of coordination.** Participants also reported a lack of coordination in government programs and funding priorities that complicates the planning process for organizations. As a result, they have to expend additional time researching and complying with the different funding priorities and regulations of various government departments.

### **Changes in the Availability of Volunteers**

“I don’t have time to do volunteer work anymore because I end up doing all my volunteer work for my job.” – *Regina*

Most participants told us that they are experiencing a decline in the number of volunteers and changes in the expectations of volunteers, both of which affect the immediate delivery of programs and services. This is also leading to difficulties in forecasting human resources needs, and impacts on the ability of organizations to plan strategically.

“People don’t want to join for life, and they don’t want to administer. They are much more interested in project type volunteering where there’s a beginning and an end.” – *St. John’s*

### **Declining numbers**

The declining number of volunteers was of concern to many participants who said that their organizations are overly dependent on a small core of volunteers and, as a result, are concerned about volunteer burnout. This sentiment was expressed most often by representatives of smaller organizations that depend heavily on volunteers to maintain their core operations. Participants attributed the decline in the number of volunteers to external conditions such as:

- **Changing values among youth.** Many participants expressed the belief that young people are less interested in volunteering than they used to be. To counteract this trend, they would like to see young people involved in volunteering earlier and more formally through the school system.
- **The role of the economy and work.** Many participants indicated that difficult economic conditions and increased demands from employers have had a negative impact on the supply of volunteers.
- **Changing priorities among specific groups of potential volunteers.** There has been a decline in the number of women who are willing and able to

spend a significant amount of their time volunteering. Large education-related debts are leading young adults to spend more of their time working, leaving less time for volunteering.

## Changing expectations

Most participants said that there have been significant changes in volunteers' expectations. In particular, they noted that volunteers today prefer short-term assignments, are less committed to their voluntary activities than in the past, and are reluctant to take on leadership or administrative roles.

Participants raised the issue of corporate support in conjunction with volunteering. Some participants said that they would like to see more corporations encourage their employees to volunteer in both service and leadership roles. Several participants noted with dismay that, while some corporations promote volunteerism as a philosophy, they do not provide the structure to allow their employees to volunteer. A few participants said that they felt corporations were more interested in helping large organizations because of the potential for greater public relations benefits.


## Changes in Public and Media Perceptions

### Public Perceptions

Participants frequently reported that their organization's ability to raise funds is undermined by negative perceptions about the nonprofit and voluntary sector. They were concerned that the public thinks that there are too many nonprofit and voluntary organizations, and that these organizations are inefficient and "second-rate." Some participants said that a widespread perception that nonprofit and voluntary organizations are inefficient in managing their resources has contributed to the growing demand for accountability, and that meeting this demand has put additional burdens on organizations.

A number of participants said that they found it difficult to overcome the perception that governments are already funding the services that their organizations provide. A few participants mentioned that, because their organizations are well-known, the public incorrectly believes that they do not need money.

With regard to human resources, some participants said that the perception among the general public that governments are providing services that are, in



"We're getting all this good public relations, but it doesn't translate into money at all. In fact, it may undermine it because they think oh, well, those guys have lots of money."  
– Regina

"There needs to be more awareness and education in the corporate community about the importance of the nonprofit sector: that they can lend their support not only through donations, but through manpower and supporting the people."  
– Edmonton



fact, delivered by nonprofit and voluntary organizations makes it more difficult to attract volunteers and board members. The vague perception that “other people” are taking care of things has a similar effect.

## **Negative Media Coverage**

Media coverage of nonprofit and voluntary organizations often focuses on problems rather than the contributions of these organizations. Many participants suggested that a broad-based public relations campaign could counteract bad press, raise awareness of the value of the sector, and educate the public about the actual cost of, and need for, basic administration. A number of participants, often from smaller communities, reported difficulties in fundraising because of negative media depictions of fiscal inefficiencies and mismanagement.

## **Other Changes in the External Environment**

### **Increasing Demands for Financial Accountability**

“There should be common rules and regulations for organizations to follow when managing their finances. This would permit organizations to be more efficient, to save money, and possibly it would create more alliances.” – *Montreal*

“Rules for not-for-profit accounting and reporting change every year. It’s very difficult to change your financial systems and reporting.” – *Vancouver*

“In a single building, there are several community groups. They feel as if they are competing with each other, particularly for grants. They conceal from each other the amounts they receive.” – *Montreal*

The majority of participants indicated that funder expectations and demands regarding application and reporting requirements were unduly high and consumed an inordinate amount of staff and board time. They told us that each project — whether funded by government, a foundation, or a corporation — has distinct compliance procedures. This problem is exacerbated when organizations must report to multiple funders.

In addition to their concerns about greater expectations for financial reporting, many participants indicated that funders frequently change their financial reporting requirements and their rules regarding expenditures. Frequent changes in reporting requirements, particularly among government funders, mean that organizations have to retrain staff, reformulate procedures, and reconfigure their systems. Delays in receiving funds may also result.

### **Increasing Competition for Resources**

Participants reported that increasing competition for funds was causing problems for their organizations. The combined impact of reductions in government funding, tighter restrictions on how funding can be used, and increased demand for services was cited as a factor that is causing organizations to pursue a wider variety of revenue sources, including project funds, corporate funding, donations, and commercial activity. Some participants observed that continuing growth in the number of nonprofit and voluntary organizations

increases the competition for what is perceived as a shrinking supply of available funds. Competition was also viewed as a constraint on the ability of organizations to collaborate and to share resources such as infrastructure.

Several participants mentioned that their organizations are facing increasing competition for skilled volunteers and staff, and well-connected board members. Fundraising skills are particularly in demand.

## **Increasing Importance of Collaboration**

Many participants reported an increasing emphasis on collaborative arrangements. Collaboration is seen as a way to share costs and reduce expenses, and is increasingly being encouraged by funders. Many participants expressed frustration with being required by funders to develop collaborative relationships. Although often considered worthwhile, collaboration is reported by participants to be time-consuming, to require specific human resources skills, and to be difficult to sustain. The success of collaborative projects can be jeopardized if one partner fails to perform his or her part adequately. Competition among organizations can also impede their ability to collaborate effectively.

*“We create partnerships on our own. We have excellent partnerships, but we don’t need to be forced into artificial partnerships as a form of regulation and governance.” – Regina*

## **Regulatory and Legislative Restrictions**

Some participants whose organizations engage in advocacy work reported that their ability to be effective advocates on issues of concern to them is constrained by current legislative restrictions on the amount of advocacy activity that charitable organizations can undertake.<sup>5</sup> A number of participants cited as a source of confusion the lack of a clear definition of advocacy in Canada Customs and Revenue Agency regulations.

*“When an organization makes profits it is penalized, even though that surplus would make it possible to maintain the infrastructure. When there is a surplus, subsidies are frozen.” – Montreal*

At the same time, many organizations identified difficulties in having meaningful input into the development of government policies and programs because of what was perceived as a lack of interest and responsiveness on the part of government. A lack of input means that organizations are affected by policies that may not address their needs or the needs of the population or causes they serve.

*“As a charity, of course, we walk a really fine line. So how do we do advocacy and what risk are we putting our organization at by doing it?” – Regina*

<sup>5</sup> *The Income Tax Act stipulates that registered charities must use “substantially all” of their resources for charitable activities. Canada Customs and Revenue Agency interprets this to mean that no more than 10 percent of resources can be used for advocacy or political activities.*

## CAPACITY ISSUES AND CHALLENGES

Although nonprofit and voluntary organizations believe they have considerable strengths in their human capital and relationships with stakeholders, they also appear to be experiencing considerable challenges in their work. The most pressing challenges reported are in the area of financial capacity. Organizations also expressed the need for improvements in human resources capacity and structural capacity. Each of these capacities is discussed in the sections that follow.

### Financial Capacity

When asked to name the one factor that would most improve the capacity of their organizations to achieve their objectives, most participants did not, as one might have expected, just say “more money.” Nonprofit and voluntary organizations more frequently called for “better money” — access to revenues that are flexible and therefore provide organizations with enough autonomy to decide what activities to pursue, the ability to develop and maintain human resources, and the stability that permits long-term planning.

The organizations that participated in our study appear to rely on external funders such as government, foundations, and corporations as their primary sources of revenue.<sup>6</sup> These funders tend to provide *project funding*, which supports specific programs and activities, rather than *core funding*, which supports an organization as a whole. Participants frequently reported that project funding was short term and that little of it could be used to support the organization’s administration and infrastructure (i.e., structural capacity). Participants whose organizations operate largely with project funding reported that they have limited autonomy and independence; they need to search continually for new project funding to maintain their existence; they have difficulty recruiting and retaining staff; and they find it difficult to engage in long-term planning.

Participants who did not identify core funding as the most important way to improve their organization’s financial capacity pointed to the need for long-term, stable funding and for more funding overall. With regard to the latter, it is interesting to note that few organizations appeared to be exploring ways to earn income; rather, they were interested in more support from funders and donors.

In the discussion that follows, we focus on the capacity issue that was identified as having the highest priority — financial capacity. We then discuss a number of issues that limit the ability of organizations to manage their finances.

<sup>6</sup> Although there has been little research on the types of revenues that nonprofit and voluntary organizations rely on, many registered charities depend heavily on external funding from government (Hall, 1995). See also Sharpe (1994).



## Revenue Generation Capacity

“From 12 years ago until now we’ve had an 80 percent increase in the demand for our services, but no additional funding for staff to provide services.” – *Regina*

“The government used to fund areas it doesn’t anymore, so local historical sites are competing with hospitals for money.” – *Calgary*

“The trend is to download to nonprofits. The government is unable to do as much at this point as it used to.” – *Halifax*

Most participants indicated that the way in which funders — government, foundations, and corporations — provide funding is having a negative impact on their organization’s ability to fulfill its mission or achieve its objectives. Although nonprofit and voluntary organizations can be financed through a variety of means (e.g., grants and contracts; charitable donations; earned income, such as membership fees; fees for services; sales of goods; and charitable gaming from sources other than government), many organizations rely heavily on government funding.<sup>7</sup> The funding expectations and requirements of external funders, including government, seemed to create the biggest challenges for most of our participants. Many of these challenges revolve around one key issue: the need for better funding. This includes the provision of core rather than project funding, and the provision of long-term stable sources of funding.

Other key issues include the need for more funding and for more diversification in the sources of revenues. Some participants also identified capacity issues arising from the changing funding priorities of funders, difficulties in getting funding from corporate sources, the need for better networks for funding contacts (particularly at the board level), and the need for more awareness among funders of the needs and administrative challenges facing organizations. The various challenges are presented below in order of the frequency with which they were raised by participants.

## The Need for Better Funding

Funding of nonprofit and voluntary organizations falls into two main categories: core funding and project funding. Core funding gives organizations the ability to plan and pay for the costs of operating an organization. Core funding promotes organizational stability, and strategic planning and development. Project funding, by contrast, is typically restricted to payment for specific non-operational expenses. In many cases, funding for nonprofit and voluntary organizations is designated for specific purposes, which limits the ability of organizations to apply this revenue to administrative or operating costs.

The desire for core funding was raised frequently by participants throughout the consultations. Discussion about the need for core funding was often tied to a concern about restrictions on the use of funds. This appears to be a major issue confronting organizations that rely on external sources of funding. Many participants reported that funders have unrealistic expectations and fail to adequately understand how the ability to pay administrative and overhead costs

<sup>7</sup> Sharpe (1994) reports that 56 percent of all revenues that flow to charitable and nonprofit organizations come from government. See also Hall (1995).

(e.g., salaries, technical infrastructure, etc.) would ultimately lead to improved organizational operations.

## Problems Associated with Project Funding

Many participants readily identified a series of difficulties stemming from their reliance on project funding. Participants frequently reported that they had to chase project funding or “stitch” together different sources of funding to keep their organizations operating. Problems associated with project funding are detailed below.

**Inability to support infrastructure.** Many participants reported being frustrated by what they perceive as unreasonable and unrealistic funder restrictions that typically exclude support for administrative or infrastructure costs ranging from basic office supplies to strategic planning and public awareness. Often, participants expressed the view that funders and the public need to be educated about the basic organizational and administrative needs of nonprofit and voluntary organizations.

**Danger of mission drift.** Because project funding goes to support activities and services that funders have determined to be priorities, most participants reported that they had to tailor their programs to fit funders’ mandates. Consequently, they must continually struggle to ensure that the character and mission of their organization are not altered.

**Excessive burden on human resources.** A number of participants identified human resources problems arising from project funding. These include the strain on human resources created by the process of applying for project funding, the need to be constantly searching for and applying for this type of funding, and the need to report to funders on the use of funds. Participants observed that their human resources needs have changed because of proposal writing and financial accountability requirements associated with operating in a project-funding environment.

**Loss of autonomy.** Some participants reported that the emphasis on project funding is leading to a loss of financial and organizational autonomy because it limits organizations to activities and programs that funders are prepared to support.

## The Need for Stable Sources of Funding

Many organizations appear to be struggling with a lack of long-term funding for their work. Participants frequently told us that it was difficult to adjust to

“Funders don’t provide operating funds. They give out project and service contracts. So in the end, it’s not your mandate to get the money; it’s to do projects they want you to do.”  
– *Halifax*

“No donor that I work with is really interested in paying for the photocopy toner, or for the rent or for salaries.” – *Toronto*

“We do not have the funding for fixed assets, only for projects. It is difficult to ensure basic services: premises, telephone and insurance. It would be important to have core funding.”  
– *Montreal*



“The more an organization seeks funding diversification, the more time must be invested, and we do not have it.” – *Montreal*

“What we need to look at is more stable funding, and that is multi-year funding. Right now, you basically end up going for yearly funding, which means that by the time you finish the project, you’re in the battle to prepare the next project.” – *St. John’s*

“Foundations and government must recognize that they need to fund core activities with basic funding that allows an organization to have some security to fulfill its mission.” – *Vancouver*

shifting funding priorities, particularly those of government, which they said fluctuated according to whatever was the “hot topic” of the day. Organizations also appear to be struggling with the challenge of trying to address long-term needs and planning when funding is often available only for short-term programs. Participants identified the following as problems associated with the lack of stable sources of funding.

**The continual search for funding.** One frequently cited implication of unstable funding was that organizations must continually strive to secure funds. This sometimes compromises the ability to focus on organizational programs and objectives.

**Difficulty with long-term planning.** The lack of stable, long-term funding also appears to make long-term planning difficult. Participants frequently reported that, ironically, project-funding applications require organizations to demonstrate sound long-term strategic planning, even when funding is allocated on a short-term basis and support for long-term planning activities is not provided.

**Difficulty responding to abrupt changes in funding.** A number of participants reported instances where funding ended or was decreased with little notice, leaving organizations with limited opportunity to adapt.

**The need for independence.** A number of participants whose organizations engage in advocacy work underlined the importance of stable funding. They expressed concern that the lack of stable funding leaves them vulnerable to funding cuts if they advocate points of view that their funders may disagree with.

## **The Need for More Funding**

A number of organizations identified the need for more revenue as their biggest capacity problem. Many participants identified the challenge associated with reliance on external funding for causes that are not “popular.” For example, organizations that deal with causes such as substance abuse perceive that they have more difficulty raising funds than do organizations that help children. A small number of participants observed that some funders have created disincentives for fundraising by reducing the amount of funding they provided if organizations obtain monies from other funders. One organization reported that it was unable to access government funding because it lacked paid staff. As noted, however, the issue of a shortage of long-term core funding clearly overshadowed these concerns.

## Internal Constraints on Revenue Generation Capacity

Participants identified a number of internal capacity issues that affect their ability to obtain financing and generate revenue. These include difficulties with human resources and various aspects of structural capacity.

**Human resources capacity.** Many participants identified a variety of human resources issues, including difficulties in retaining staff to help with revenue generation over the long term. The importance of having staff, board members, and volunteers with fundraising skills was often noted.

Many participants also identified the strain on human resources created by the need to frequently apply and reapply for funding, and meet funder compliance and reporting requirements. Grant and proposal writing was often reported to be time-consuming and to require expert staff.

To overcome human resources constraints, some participants expressed a need for a collaborative model or system that would enable organizations to demonstrate to funders the effectiveness of their programs and services. According to participants, such a model would be beneficial because collaboration reduces costs and demonstrating cost-effectiveness improves an organization's ability to attract support from donors and funders.

**Structural capacity.** A number of participants identified the need for better information technology that could facilitate revenue generation by allowing them to maintain databases, create fundraising projects, and comply more effectively with funder application and reporting requirements.

## Financial Management and Accountability Capacity

Participants were asked to identify concerns about their organization's ability to manage finances. We probed:

- participants' satisfaction with their organization's ability to manage budgets, track costs, and provide financial reports to funders; and,
- capacity issues that affect the ability to manage finances.

Generally speaking, given the resources that they have available, organizations appeared to be fairly satisfied with their ability to manage finances and report to funders. Nevertheless, certain problems are apparent. For instance, most participants reported grappling with increasingly onerous demands for financial accountability. Participants whose organizations receive government funding frequently mentioned struggling with restrictions on how funding can

*“We need to focus on retention of fundraisers. We need obviously to hire well, but once we hire, we’ve got to hold onto these people. It’s about building relationships, and you can’t do that in a short period of time.”*  
– Toronto

*“When you look at the composition of our boards, you’re getting people who have connections within the community. Often that’s done because they can open doors for funders, corporate support or whatever.”* – Regina

*“It can take many, many hours to put a submission together because it has to be tailored to that particular foundation.”*  
– National Organization





be used and delays in receiving payments. Participants in some organizations, particularly smaller ones, reported difficulties in obtaining appropriate accounting software. Others identified a need for board members with financial management or accounting skills. The need for more funding, difficulties in managing donations that are designated for specific purposes, and difficulties among smaller organizations in relying on volunteers to manage finances were identified only occasionally.

## **Satisfaction with Financial Management**

Most participants appeared to be satisfied with their organization's ability to manage their finances and believe that their organizations are cost-efficient and quite innovative in the use of financial resources. Indeed, when asked about their greatest challenges, participants identified financial management only infrequently. Participants seemed to believe that, given the resources available to them and the high demands for financial accountability, they are performing remarkably well. This was particularly the case among those that are able to afford a full-time bookkeeper or accountant. Organizations do, however, appear to be experiencing a number of demands and pressures on their financial management resources. Participants also identified a number of areas for improvement, such as greater board expertise in financial matters and the availability of suitable accounting software.

## **Financial Management Capacity Issues**

**“I see organizations go belly up just because they didn't have the capacity to do their accounting properly.” – Halifax**

When asked about internal capacity issues pertaining to financial management, participants often pointed to a lack of financial resources that would allow them to acquire adequate human resources and information systems.

**“What we need more than anything else is someone who has financial planning skills, someone who can help us look into the future and figure out what to do with investments and that sort of thing. These are the kinds of skills that we need.” – Toronto**

**Financial capacity.** Many participants, especially those from smaller organizations, identified difficulties arising from the lack of financial resources to hire or pay competitive salaries for the services of financial management professionals. Those organizations that are able to hire bookkeepers or accountants appeared to be more satisfied with their organization's financial management abilities than those that are not. Participants frequently suggested that there is a need to find ways to share financial and legal services with other organizations to help reduce costs.

**Human resources capacity.** Some participants spoke of difficulty in recruiting board members with appropriate skills to help manage the organization's finances. A few were also dissatisfied with the inability of board members to read financial statements, and expressed a need for board training in this regard.



Occasionally participants reported problems with demands from their boards for financial reports.

**Structural capacity.** Many participants reported the need for ongoing technical support to maintain databases and systems. A number also noted the need for a variety of software programs to accommodate the different reporting requirements of funders and the various reporting formats that funders request. A few participants indicated that the high cost of accounting software packages poses problems. Others pointed to the unsuitability of many accounting software packages for nonprofit and voluntary organizations.<sup>8</sup> Finally, a few participants indicated that the accounting standards for nonprofit organizations were changing to parallel more closely standards for business, and that this poses difficulties for them.

## Summary

The main finding of our research on financial capacity is that nonprofit and voluntary organizations in Canada face significant financial challenges that affect their ability to fulfill their missions. The participants in our study reported that government cutbacks and downloading have had a major impact on the funding of nonprofit and voluntary organizations. They also reported that they are facing substantial challenges because of a shift in recent years from core funding to project funding and that they are having difficulty obtaining the financial and human resources needed to deliver their programs and services. The emphasis on project funding appears to have a number of unfavourable consequences for organizations, including restricted autonomy and independence, excessive time invested in searching for new project funding, difficulty with staff recruitment and retention, and limited ability to engage in long-term operational or program planning.

Other financial capacity problems stem from increasing competition among organizations for an ever-diminishing supply of funding. This competition is viewed as arising from reductions in government funding, greater restrictions on the use of funds and increasing demands for services. Some organizations have responded to this situation by putting more emphasis on collaboration. Participants also identified challenges that relate to restrictive government regulations and legislation, onerous financial accountability requirements, difficulty in obtaining corporate support, and the need for greater media and public awareness of the cost-effectiveness of programs and services delivered through the nonprofit sector. Faced with what they regard as an unstable funding climate, participants indicated that their organizations must work harder than ever to maintain an adequate level of service and program delivery.

<sup>8</sup> *Accrual-based accounting, the most commonly used accounting method, reports income when it is earned and expenses when they are incurred. Cash-based accounting reports income when it is received and expenses when they are paid (Investorsworld.com, n.d.). Because cash flow is a particular challenge for many nonprofit organizations, especially smaller ones, it may be more useful for them to account for funds as they are received or paid (i.e., cash-based accounting).*

This appears to be particularly true for organizations that attempt to raise funds for unpopular causes or carry out their core missions in a context of constantly shifting government funding priorities and reporting requirements.

In many cases, participants said they lacked the types of financial resources that would enable them to acquire the human resources and information technology that their organizations need to perform to the best of their ability. Despite the significant pressures organizations experience in the current funding environment, however, many participants expressed satisfaction with their organization's ability to manage their financial resources in a cost-effective and innovative way.

### **Human Resources Capacity**

*“If we didn't have the volunteers to do what they do, we wouldn't be in business.” – Edmonton*

*“The burnout rate is high.” – Montreal*

*“We're not competitive salary-wise. Ours are donor dollars, and there's an expectation that we not be high payers.” – National Organization*

Although human resources were identified as one of the greatest strengths of nonprofit and voluntary organizations, participants also identified a number of challenges in this area. In fact, human resources capacity issues were the second most important concern reported by the participants in our consultations. Participants appeared to have the most concerns about volunteers, followed closely by concerns about paid staff. Concerns about boards of directors were reported by many participants, but appeared to be less common and less severe than those relating to volunteers and staff.

The most frequently identified human resources capacity issue was the need for more volunteers. Most participants reported that the volunteer pool has shrunk considerably over the past five to ten years. Many also expressed the view that volunteers are increasingly unwilling to take on leadership or administrative roles or to make long-term commitments. They attributed these problems primarily to the social and economic environment in which nonprofit and voluntary organizations operate. Changes in the availability of volunteers have led to challenges for volunteer recruitment, management, and retention — all of which were identified by most participants as major capacity issues. In addition, several participants indicated that volunteer training was a priority issue.

The second most frequently identified human resources capacity issue was the need for more paid staff and, in particular, for more staff with specialized skills (e.g., managers, fundraisers, accountants, information technology specialists). The vast majority of participants we consulted mentioned this problem, and most attributed its source to the external funding environment. Participants reported that the restrictive, unstable, and unpredictable nature of project funding leads to a host of human resources problems, including overwork and burnout among staff. These, in turn, can lead to recruitment and retention

problems, which were identified as significant issues by most of the participants. Several participants mentioned staff training as another area of concern.

Issues relating to boards of directors appeared to be both less common and less severe than those relating to volunteers and paid staff. Nevertheless, most participants reported some capacity issues relating to boards. Two issues were mentioned most frequently: the need for more targeted recruitment strategies so that organizations can develop boards with the right mix of people and skills, and the need for organizations to clearly define the role of their boards. Some participants also reported concerns about board training and board retention.

Most participants we consulted indicated that an insufficient number of volunteers, especially those willing to take on leadership roles, and an insufficient number of paid staff, especially those with specialized skills, hinder the capacity of organizations to fulfill their missions. The main volunteer and staff issues were recruitment, retention, management, and training. The main issues relating to boards were strategic recruitment, governance (e.g., roles and structures), operations, training, and retention.

Not surprisingly, many of these issues are interrelated. Many are also closely related to the external environment and to the financial capacity issues discussed in the previous section of this report. For example, government downloading and cutbacks mean that many organizations have more work to do than ever before. Thus, they need more volunteers and fully engaged, active boards of directors which, in turn, increases the importance of solid board and volunteer recruitment and retention strategies. Skilled staff are needed to develop these strategies. Participants reported, however, that in the current funding environment, organizations cannot always hire enough staff. This makes it difficult to formulate and implement strategies. As well, existing staff must often handle many tasks at the same time. If they become overworked or burned out and decide to leave the organization, they take with them all of the knowledge and skills that they developed on the job.

We begin this section by discussing capacity issues relating to volunteers. This is followed by a discussion of issues relating to staff. Finally we discuss issues relating to boards. Within each section, the issues are discussed in order of the priority that participants appeared to place on them.

## **Volunteers**

All of the participants valued the important contribution of volunteers. But the decline in the number of volunteers has led to concerns among

“I just find that people will do the work, but please don’t put me in charge. Find someone else to be president or chair or whatever.”  
– Peterborough

“A lot of people call and want to volunteer, but a lot of the programs that our volunteers deliver require many, many hours of training, and volunteers must be available when our clients need them.”  
– Victoria

“We can only afford to hire people who don’t need to make a living.”  
– Edmonton





organizations about their recruitment, retention, management, and training strategies. Some of these concerns (e.g., issues relating to recruitment and retention) are largely the result of external factors, such as the changing values of young people and the changing expectations of volunteers. Other concerns, such as those related to volunteer management, are influenced by internal factors, such as having sufficient paid staff available to manage volunteers. Each of these capacity-related issues is discussed below, in order of the importance placed on them by participants.

“We have a problem recruiting enough volunteers to keep our activities going.” – *Regina*

“People will commit to short-term projects and things that have a beginning and an end. We have people who have been volunteering for 60 years. We’re not going to get 60-year volunteers now. We’re lucky if we can get them for six weeks.” – *Victoria*

“For some causes there’s no problem getting all kinds of donations and money and people to participate. But when talking about seniors’ issues, there is a perception that seniors are rolling in dough.” – *Toronto*

**Recruitment.** Among the organizations we consulted, the most serious issue relating to volunteers was recruitment. Participants identified the following recruitment issues:

- **The need for more volunteers.** Most organizations reported that the number of volunteers has decreased substantially in recent years. This decline has left many organizations with too few volunteers to deliver their programs and services effectively.
- **The need for more stability and long-term commitment.** Many organizations need volunteers to perform tasks that require training and specific, sometimes fairly lengthy, time commitments. Yet most organizations are finding that volunteers today prefer short-term assignments and are less committed to their volunteer activities than in the past. Some organizations also reported seasonal fluctuations in the number of volunteers.
- **The need for leaders.** Many organizations need volunteers to take on front-line service delivery tasks. They also need volunteers who are willing to accept leadership roles. However, several participants told us they are finding that many people, particularly young people, are less willing to take on leadership roles than in the past.
- **The need for better policies and procedures.** Some participants said that their organization needs formal policies and procedures for their volunteer recruitment activities to ensure that volunteers are properly screened and assigned to suitable tasks. However, participants also stated that their organizations often lack the financial and human resources to develop these policies and procedures.
- **Profile and popularity of the cause.** An organization’s mission or purpose also appears to have an impact on its ability to recruit volunteers. For example, one organization that uses volunteers to do manual work, such

as building and carpentry, sometimes has to turn away volunteers. Another organization that deals with a disease, however, must rely on volunteers who have the disease or have a family member living with it.

- **Impact of organization and community size.** Recruitment problems appear to be greater for small organizations and communities. Representatives of small organizations and organizations based in rural areas and small towns were more likely to report problems recruiting sufficient numbers of volunteers than were representatives of larger, urban-based organizations.

**Retention.** Because good volunteers are hard to find, organizations are understandably concerned about retaining the ones they have. Retention was, therefore, a major issue for most participants in our consultations. Participants frequently mentioned the following issues relating to retention:

- **Burnout.** Most participants were concerned that a shortage of volunteers would lead existing volunteers to burn out and might cause these volunteers to terminate their involvement. Some participants also noted that the activities their volunteers are engaged in (e.g., counselling) can be quite stressful, which can also lead to burnout.
- **Recognition.** Most participants understand that regularly recognizing the contributions of volunteers is a key element of volunteer retention. However, participants were concerned that their organizations do not have the staff resources necessary to provide sufficient informal recognition for volunteers or to develop and manage more formal recognition programs.
- **Flexibility.** Another important mechanism for improving retention is to adapt to the needs of volunteers. Many participants said that they are attempting to respond to volunteer needs by developing more short-term, flexible assignments. Some organizations try to provide volunteer assignments that are meaningful but that do not involve too much responsibility. However, participants also pointed out that flexibility is limited by the nature of the volunteer positions.

**Volunteer management.** Organizations that rely on volunteers appear to be most successful when they manage their volunteers efficiently and effectively and keep them motivated. Many of the participants were concerned about their capacity to provide this type of management. They identified the following issues:

“For many years we had a limited number of volunteers who we were drawing upon. And they burn out. They reach a point where they have given all they can give and they don’t have anything more to give.” – *Winnipeg*

“It’s very important, especially with volunteers, to make sure that you have at least one time during the year to recognize their contributions.” – *Regina*

“Handling volunteers implies giving up control. It’s not a job. You must always expect that they will be leaving, and not have too many expectations. You must always work at the motivational level, be generous to them. Always be aware of how lucky you are.” – *Montreal*



“You need paid staff who are specifically assigned to manage, train, recruit, recognize, and develop volunteers.” – *St. John's*

“Increasingly, we are defining roles, responsibilities and duties so that everyone knows what he or she is coming to do. That goes from stamping envelopes to managing a department.” – *Quebec City*

“There are few permanent employees and that leads to a loss of impetus. We have to work as though we were no longer going to be there the next day.” – *Montreal*

- **The need for paid staff to manage volunteers.** While many organizations have paid managers of volunteer resources, many others do not. A paid manager or coordinator of volunteer resources was noted repeatedly as the single most important factor in facilitating volunteers' contributions.
- **Workload.** As a result of understaffing, many participants reported that managers of volunteer resources are overworked. Their many responsibilities include: (1) responding to increasing demands for short-term, flexible, and seasonal volunteer assignments; (2) ensuring that volunteers do not over-extend themselves and burn out; (3) finding appropriate and meaningful tasks for volunteers; (4) motivating volunteers; and, (5) dealing with the tension that sometimes exists between staff and volunteers. Participants indicated that volunteer management has been made even more difficult in recent years by the increasing need for security checks and other screening mechanisms and, in some cases, extensive training of volunteers. Funder requirements to track volunteer contributions have also added to the workload.

**Training.** Several participants had concerns about their organization's capacity to train volunteers. This issue was most important to participants whose organizations need volunteers with specialized skills (e.g., counselling skills, computer skills). These participants stated that it is often difficult to recruit volunteers who have the skills they need. They view volunteer training as an alternative way to obtain these skills. Many organizations, however, have difficulties finding adequate time and money for volunteer training.

## **Paid Staff**

Participants in our consultations indicated that they are constantly impressed by the passion, commitment, and competence of their staff. Despite this, most organizations face significant staffing challenges. For example, most participants identified a need for more staff, especially staff with specialized skills. Not surprisingly, chronic understaffing and an over-reliance on generalists have a negative impact on working conditions in these organizations (e.g., staff are overworked and are often called upon to carry out tasks for which they feel poorly qualified). Poor working conditions, combined with low compensation levels, lead in turn to retention problems. Some participants also pointed to a pressing need for more staff training. Our discussion of staff focuses on four issues: the need for more staff, the need for more specialized staff, the need for better retention strategies, and the need for staff training.

**Need for more staff.** The most frequently mentioned staff-related problem was the lack of funding to hire enough staff. Most participants said that they had more work than their staff could handle. This understaffing means that existing employees are burdened with heavy workloads that, in turn, lead to high rates of burnout and turnover.

Staff resources appear to be taxed by the process of applying for funds, and by increasingly complex and detailed accountability requirements. Several participants noted that the current funding environment provides few or no resources for administration or to replace staff members who are on extended leave, thus increasing the likelihood of burn out.

**Need for more specialized staff.** Most participants reported a need for more staff with specialized skills. Management, fundraising, accounting, and information technology skills are particularly in demand. But many organizations cannot afford the compensation levels that would attract these professionals. Instead, they must struggle to get by with staffs composed almost entirely of self-taught generalists. Although these individuals are frequently dedicated and passionate about their work, they simply do not have the skills to do what is expected of them.

**Need for better retention strategies.** Most participants said that low compensation levels and a lack of benefits have a negative impact on staff retention. They told us that nonprofit and voluntary organizations are widely viewed as “training grounds” for staff: after people get some training and experience in a nonprofit organization, they move on to better paying positions in the private or public sector. Thus, organizations must spend a great deal of time and money continually recruiting and training new staff members. Institutional memory suffers when organizations lose long-time staff members. A few participants also told us that the “flat” organizational structure favoured by many nonprofit and voluntary organizations can be problematic because it leaves little room for promotion.

At the same time, many participants argued that job satisfaction can compensate for lower pay, that quality of life is important to many people, and that many employees stay with nonprofit and voluntary organizations because they believe in the cause. Some also pointed out that flexible time and other non-monetary benefits were commonly used as rewards for staff. These types of benefits, however, only allow the organizations to retain staff who are willing to accept them in return for less pay than they could earn elsewhere.

“In order to have the kind of people needed to take our organization into the next decade or two or three, we have to find creative ways to recruit and retain the people who are really good.”

– *Vancouver*

“We need to be training our staff and developing them so that they can move into leadership positions.” – *Toronto*

“As soon as they get an opportunity to find a better job for better pay, of course they are gone.”

– *Regina*





“There aren’t these 20-, 30- or 40-year-olds coming up through the system. It’s a real problem because in a matter of 15 years we’re going to end up with geriatric boards that we don’t have the ability to renew.” – *Victoria*

“We have had 150 percent support so far from our board. They are really committed and they are there because they believe in it. They are not paid.” – *Regina*

“We know who is on whose board and how long they have been there, and you can tell a pretty good board member. And you are just waiting for them to give the slightest indication that maybe they are ready to move on and come to us.” – *Saint John*

**Need for staff training.** Several participants mentioned the need for training programs for their employees, particularly programs that are specific to the nonprofit sector. Staff training and professional development were also cited by some participants as important non-monetary incentives that help to keep staff engaged and motivated. But training can be expensive. For this reason, many participants said that they cannot afford to set up or participate in training programs. Some also noted that professional development can be a “double-edged sword” as employees often use their newly acquired skills to obtain higher-paying positions elsewhere.

## Boards

Although many participants said that they have strong boards that are real assets to their organizations, they also raised several significant board-related issues. The issues mentioned most often were: the need to recruit the right mix of people and skills, and the need for better board training and retention strategies.

**Recruitment.** Most participants we spoke with recognized the need to recruit board members strategically, based on the skill sets, background knowledge, and networking potential they can bring to the organization. Getting the right mix of people can be difficult, however, as is reflected in the recruitment challenges identified by participants, which include:

- **Competition for board members.** Some participants indicated that there was considerable competition in their communities for experienced, influential board members. Competition for board members with specific skills (e.g., management, fundraising, accounting, or legal skills) was also reported to be strong. This appeared to be a bigger concern in small communities where the pool of potential board recruits is comparatively small.
- **Concerns about liability.** Some participants noted that prospective board members are concerned about liability and refuse to join boards of organizations that do not have adequate liability insurance. This can be a problem because liability insurance is both expensive and difficult to fund.
- **Few younger people willing to sit on boards.** A few participants expressed concern about the lack of people under the age of 40 willing to accept board positions. Although this was not reported to be causing any immediate problems, it could become a significant issue in the future when current board members begin to retire.



- **Status-seeking recruits.** A few participants reported situations where it appeared that people had accepted board positions only because of the status these positions conferred. These people then failed to contribute to the organization.

**Role and function.** Many participants stressed that it is important that board members understand the role and function of nonprofit boards in general, and their own specific role and function within a particular organization. The issues relating to board roles and functions that were raised most frequently are:

- **The need for role clarity.** Nonprofit boards can function in a variety of ways. Some organizations want working boards whose members take on many of the day-to-day tasks of the organization. Other organizations are primarily interested in the ability of their board members to contribute financially to the organization — either directly or by fundraising. Still others want their boards to concentrate on policy development. Given the variety of possible roles for board members, it is imperative that expectations be clearly communicated. Many participants said that they had difficulties in this area and expressed the need for more money and staff to conduct board training and orientation.
- **The need for more active boards.** Some participants expressed concerns that their boards were not sufficiently active, especially in such key areas as fundraising and policy development. This is a particular problem for small organizations with few paid staff.

**Training.** Most participants said that they were convinced of the importance of board training, but many were concerned about their organization’s capacity to provide such training. The key training issues raised are:

- **The need for more training.** Most participants said their organizations need to do more board training and development. Some participants told us that a standardized training and development program for nonprofit boards would be very helpful. Because cost and accessibility were frequently mentioned as barriers to training, a standardized program would have to be reasonably priced and accessible to be useful.
- **Lack of resources to implement training.** Many participants said that their organizations have difficulty finding the time, staff, and money to carry out the kind of training their board needs.

“One of the biggest problems that I have found with small groups like mine is maintaining a consistent size of board and maintaining the history over time so that, as people move on, they find out what you’ve done and how you’ve done it.”  
– *Edmonton*

“You’ve got to have a board of directors that, first of all, understands what the role of an organization is and what they are doing, and then lets staff do it.” – *Regina*

“A proper orientation is critical to be able to engage the board in a way that they understand what their roles are.”  
– *Winnipeg*



**Retention.** Although several participants raised board retention as an issue, the nature of the problem varied. Some organizations experienced too much turnover in board membership; others experienced too little turnover.

- **Too much turnover.** Several participants said that rapid turnover in board membership was a major concern for their organization. Continuity, institutional memory, and organizational culture can be extremely difficult to maintain if board membership changes too frequently.
- **Too little turnover.** A few participants told us that membership in their board does not change often enough. Too few opportunities to add new perspectives to a board can be a problem, especially if the board has run out of energy and ideas.

## Summary

Although most of the representatives of nonprofit and voluntary organizations we consulted identified human capital as their greatest strength, our findings also indicate that they face significant human resources challenges that affect their ability to fulfill their missions.

Participants reported that changes in the social and economic climate have contributed to a decline in the number of volunteers and potential board recruits who are well-suited to their organization's mission. It is difficult to recruit and retain volunteers who are willing to make a long-term commitment and who have strong leadership skills. Participants also indicated that it was difficult to recruit people who have the right mix of skills and abilities for effective board governance.

According to participants, these problems are exacerbated by the project-funding environment that has made it increasingly difficult for organizations to hire and pay competitive salaries to staff. In addition, a significant number of participants argued that project-based funding limits the ability of their organization to recruit and retain staff with specialized skills and to train existing staff.

Overall, participants indicated that greater access to stable operational funding would enable nonprofit and voluntary organizations to better develop their human resources capacity, and in doing so, to address many of the issues that impede long-term organizational development and planning.

## Structural Capacity

Structural capacity includes the processes, practices, accumulated knowledge, and support structures within an organization that help it to function. In our discussion, structural capacity has been divided into three main components: planning and development capacity; infrastructure and process capacity; and, relationship and network capacity. We also address the issue of policy capacity, which relates to both planning and development capacity, and relationship and network capacity.

Most participants we consulted identified planning and development issues as the greatest structural capacity challenge for their organization. This was closely followed by infrastructure and process issues. Relationship and network-building issues were viewed as important by significantly fewer participants, and policy development was viewed as important even less frequently.

Our findings indicate that, for the organizations in our study, structural capacity depends, in large part, on existing financial and human resources capacities.

In this section, we review the issues associated with each component of structural capacity.

### Planning and Development Capacity


Planning and development capacity refers to the ability to develop and draw on an organization's strategic plans, program plans and designs, and proposals. According to participants, many of the difficulties that organizations experience in this area result from a lack of financial capacity. Insufficient human resources capital and relationship and network capital also contribute to planning and development problems.

**Impact of Insufficient Financial Capacity.** The lack of core funding and stable, long-term funding poses the greatest challenge to the development of organizational vision and strategic planning for many organizations. Core funding gives organizations resources to devote to planning and development; stable and long-term funding minimizes the need to constantly revisit and revise programs and plans.

**Impact of Insufficient Human Resources Capacity.** Planning and development is much easier for organizations that have access to staff, volunteers, and boards with the right skills for these tasks. For some organizations, this means business



*“Strategic planning is very difficult with multiple funding sources, each with its own very specific objectives. You can make all the strategic plans that you want but, in fact, what you are doing is jumping through all your funders’ hoops.”*  
– Edmonton



leaders who serve as board members; for others it means staff with grant-writing skills and experience. However, the ability to hire staff depends upon an organization's financial capacity.

Finding the time and human resources to undertake strategic planning appears to be difficult for many organizations, particularly those that are facing a high level of demand for their services. Many participants indicated that they could do strategic planning only if they shut down services entirely.

Some participants recognized the need to develop a planning culture among board members, staff, and volunteers as a first step toward better strategic planning and development. At the same time, they recognized that, without adequate human resources, it is difficult to focus on strategic planning activities such as developing a mission statement, preparing funding proposals, planning services in the longer term, and disseminating information. Staff and volunteers often feel forced to concentrate on immediate service and programming issues to the exclusion of organizational management and planning. Concerns in this area focused primarily on the role and expertise of board members, and the skills of staff.

Although participants recognized that boards play an important role in strategic planning, they raised concerns about the nature of that role. The key concerns about board management were the appropriate role of the board in strategic planning versus operations and the lack of expertise or other resources to engage board members in effective strategic planning for the organization.

Participants who identified a need for improved board functioning mentioned the importance of stronger strategic planning skills, more sharing of power between staff and board members, less board interference in operational issues, and better proactive management of issues. One participant noted that, due to a lack of time, nonprofit organizations often operate in a reactive, rather than a proactive, manner.

Some participants from national organizations noted that their boards sometimes fail to recognize capacity constraints that result from limited human and financial resources. Consequently, these boards overestimate the capacity of their organizations to operate at the national level. Unrealistic expectations ultimately lead to poor strategic and operational planning.

**Lack of Staff Skills.** A lack of appropriate staff skills, staff motivation, and staff continuity also limits the planning and development abilities of the organizations in our study.

**“Our challenge is having the time and the staff to do some long-range planning and tap into resources through proposals. These needs compete with the service needs of the community, so there’s a pull from both ends.” – Saint John**

The capacity to engage in research was seen as instrumental to planning and development. But some participants noted that staff do not have the time or skills to design, conduct, and analyze research. When these organizations need extensive research, they tend to contract with specialized agencies such as universities. Some participants reported that their organizations rely on board members to assist them with research.

Some participants said that even when time and other resources were adequate, staff lacked the motivation or capability to engage in strategic planning exercises.

Problems with staff retention were also cited as a reason for the difficulty some organizations experience with planning and development. If organizations could hire staff on a longer-term basis and offer them more employment security, this would help to build an institutional memory and would facilitate planning and development.

**Impact of Insufficient Relationship and Network Capacity.** According to participants, relationships and networks, such as collaborations and cross-sectoral bodies, significantly enhance capacity for planning and development. They also indicated that better cooperative networks for strategic planning and organizational development can help to improve knowledge about available resources and sources of support. A number of participants told us that it would be useful to have a central repository of information that could be accessed widely throughout the sector.

National organizations sometimes face distinct challenges in developing a coherent vision for the future. Large national organizations that provide multiple services may have regional chapters or branches that do not share exactly the same mandate or deliver the same range of services. When national organizations and their provincially based member organizations have different visions, they sometimes have difficulty reaching consensus on strategic planning issues.

## **Infrastructure and Process Capacity**

Infrastructure and process capacity results from the effective use of infrastructure, processes, and organizational culture. It includes information technology, intellectual property, and products related to the internal structure or day-to-day operations of the organization (e.g., databases, manuals, policies, and procedures). The most important capacity challenges that participants identified in this area pertain to information technology. Some participants also

“The challenge I face in implementing strategic planning is resistance from the staff. They don’t see the need or they don’t have the intellectual capacity or the ability to do it.” – *Peterborough*

“We are very actively reshaping the way we use information technology within the organization. We have partnered with the volunteer centre in developing their database so we have their resources on hand.” – *Winnipeg*

“We don’t have the luxury, generally, of doing the kind of research that we need to do in order to support our policy direction.” – *National Organization*





identified the need for improved collaboration, particularly when it allows them to share infrastructure resources such as physical space.

Deficiencies in the area of information technology are, by far, the most commonly cited infrastructure and process capacity issue. Many participants specifically mentioned a lack of internal technical capacity and expertise as the barrier to building a stronger organization. The purchasing, maintenance, upgrading, training, and retraining costs associated with information technology were often cited as problems.

“Because we can only upgrade the IT as money becomes available, it’s upgraded inconsistently. I don’t know that there are any two people working on the same version of the same software.”

– *National Organization*

**The Need for Better Information Technology.** Many participants perceived the need to invest in information technology to facilitate efficient information dissemination. However, some reported difficulty doing this and pointed to funding constraints as the primary reason for reliance on inefficient, outmoded, and poorly integrated systems.

Some participants said that developing databases to track donors and relationships with stakeholders would help to enhance organizational infrastructure and systems. Participants representing newer organizations, in particular, reported that because they must compete against older, better-established organizations, it is important to have the best technology available.

The few organizations that reported minimal information technology problems tend to use their systems not just for basic services, but also for research, volunteer program development, and community networking. Overall, organizations in our study that embrace information technology and apply it in all areas of their operations appear to experience the fewest difficulties in using these resources.

**Lack of Human Resources Capacity.** Participants reported problems arising from a lack of appropriate information technology skills among both paid staff and volunteers. With regard to paid staff, differing skill levels cause difficulties for some organizations. For example, staff with fewer skills are unable to share information and other resources to the fullest extent. To deal with the varying levels of skills among staff, some organizations find that they need to use more than one form of communication (e.g., both electronic and printed formats) to get information to interested parties and meet funder reporting requirements.

A lack of information technology expertise was mentioned as a particular problem among volunteers. Many participants pointed out that while they must rely on the available pool of recruits to meet all of their volunteer needs, these volunteers often lack the skills to use technology effectively. The need for

more training for volunteers in this area seems to be a priority for many organizations. Low volunteer retention produces a lack of continuity that can undermine the smooth functioning of an organization's information technology system. For example, many participants said that their organizations rely on volunteers to develop and manage their information systems and when these volunteers leave the organization, staff members may be unable to use the system or trouble-shoot system problems.

Finally, some participants noted a failure of their board members to recognize the importance of up-to-date information technology. These organizations encountered difficulty in getting board support for information technology expenditures. A number of participants noted that there is a significant gap between staff and board members in their awareness of the importance of information technology.

**Lack of Financial Capacity.** Many participants reported difficulties in securing adequate funding for information technology development and maintenance. Yet, without appropriate and timely maintenance, the initial capital investment in information technology can be wasted. Some participants said that their organizations upgraded their systems only infrequently and, therefore, required massive transfers of data to their new system when upgrading did occur.

**Impact of Insufficient Relationship and Network Capacity.** A number of participants expressed a desire for a systematic approach to sharing organizational infrastructure resources and costs. Many organizations were interested in creating central repositories to access shared knowledge and exchange surplus resources (e.g., office space, telephones, printers, etc.). At present, attempts to develop such networks seem to be hindered by a lack of staff and board knowledge.

**Poor Physical Infrastructure.** Many participants spoke about the poor working conditions their employees endure. They are frequently housed in small, outdated buildings. Office furniture is cobbled together from an assortment of donations and is in poor condition. While participants were willing to accept less than optimal working conditions, they noted that they fear this will ultimately affect quality of work.


Participants also spoke of having to move frequently because they could no longer afford the cost of rent. This lack of basic operational stability can be a drain on time and other resources that could otherwise be used to build a strong infrastructure and deliver programs and services.

“There are not enough hours in the day. Basically, networking is my job, plus everything else. I don't think people really realize what it's like working in a really small agency like ours. You do everything.” – *Halifax*



“So many relationships, so little time.” – *Calgary*

“Partnerships enable organizations to survive. But this presents them with a problem of space because they have to employ people with computers who can work from home.” – *Montreal*



Partnerships among nonprofit organizations include sharing resources such as office facilities and equipment. However, it appears that such partnerships are not without problems. For example, organizations that are sharing facilities may run out of space. In cases like these, some participants said that they had to hire people who can work from home.

## **Relationship and Network Capacity**

The ability of organizations to build relationships with their members, funders, volunteers, the public, the media, and other organizations can have an important overall impact on organizational capacity. For a number of participants reporting difficulties in this area, the biggest challenges appear to be with human resources.

**Lack of Qualified Staff and Poor Staff Retention.** Many participants reported difficulties finding personnel (staff or volunteers) with the skills required to build and maintain relationships. Organizations need people who are comfortable, experienced, and credible in other environments, particularly the corporate sector. Many reported that their attempts to build and maintain relationships with the corporate sector were hindered by a shortage of personnel who are at ease in this milieu. A number of participants suggested that organizations could consider sharing staff who have relationship-building skills. Most participants who reported relationship and network capacity deficiencies identified a need to reduce staff turnover to help ensure continuity in relationships with other organizations.

**The Role of Boards.** Participants identified their boards as potentially valuable resources for developing better relationships with other organizations. A number of participants indicated a need to push board members to take on this responsibility. They also recognized the need to give board members the tools required for the job. Some participants noted, however, that board members have difficulty finding the time for building relationships.

**Lack of Expertise in Dealing with the Media.** Participants also highlighted the scarcity of personnel who know how to work with the media. In the absence of staff skilled in media relations, most organizations assign responsibility for media relationships to either the executive director or to a member of the board of directors. Given the risks inherent in media relationships, many participants thought that most organizations would benefit from media-savvy personnel.

“I basically have to train someone to build relationships so that we can have confidence in the people who would speak to any of those agencies without the fear of backlash and really injuring the agency for future funding or public profile.” – *Saint John*

“We need people who are much more skilled in the business sector, people who can open doors.”  
– *Calgary*

“A relationship with the media takes time, it takes money and it takes expertise — things that most voluntary organizations are not getting funding for.”  
– *Saint John*



## Policy Capacity


Many participants expressed dissatisfaction with the inability of their organizations to contribute to policy development. They argued that this problem is due mostly to a lack of financial and human resources capacity, time, personnel, and other resources needed to contribute to policy development. Participants also expressed a perceived lack of government responsiveness to the views of nonprofit and voluntary organizations. Somewhat fewer participants identified difficulty in doing the research needed to participate in policy development. A few participants from smaller organizations said that larger organizations and national organizations should take the lead in policy development.

**Impact of Insufficient Financial Capacity.** More than anything else, participants reported the need for greater access to funding for policy development. The lack of funding for policy development, the current restrictions on the amount of money that registered charities can spend on advocacy, the lack of long-term funding, and the prevalence of project-based funding were all mentioned as factors that prevent organizations from addressing policy issues. Most participants said that their organization's resources are simply too taxed by day-to-day activities to allow them to get involved in policy development in any but the most exceptional of circumstances.

A small number of participants said that their organizations are reluctant to become involved in policy development because they fear it could jeopardize funding from government sources and could alienate the public.

**Impact of Insufficient Human Resources Capacity.** Many participants indicated that their organizations did not have the human resources to participate in policy development. They reported that it was difficult to recruit, train, and retain staff and volunteers who are able to deal effectively with policy. Organizations are looking for people who have skills in research, knowledge of how policy is developed, and access to the "halls of power." As well, many participants said that their organizations found it difficult to set aside time for policy development, given other more immediate time demands.

**The Need for Greater Input into Government Policies and Programs.** One commonly expressed view was that government dictates policy to voluntary and nonprofit organizations, but is not generally interested in feedback. A number of participants whose organizations had been involved in policy development were skeptical about the value of their input. They believed either that their views had not been listened to or that the consultation process had been structured to



**"If it comes down to meetings to find funding versus policy development, time will be spent on funding issues."** – *Vancouver*

**"The one area where we have some volunteer recruitment problems is in the advocacy area, because there are not a lot of people who are skilled in negotiations or communications with government."** – *Calgary*

**"So you are being consulted. But are you consulted about what you want to be consulted about?"** – *Edmonton*

minimize their contribution. These participants said that their organizations are influenced by policies that are not responsive to their needs and objectives.


**Lack of Planning and Development Capacity.** Many participants reported that their organizations have not been able to participate in policy development because they do not have the resources to conduct the research that they think is necessary to inform policy. In general, participants saw research as a valuable endeavour, but a number of them expressed the concern that increased funding for research could mean decreased funding for programs. A few participants also said that it was difficult to find the resources to sponsor independent research and the skills to evaluate the validity of such research, either generally or as it applied to their particular situation.

**Size of Organization.** The dominant view among participants was that policy development is mainly an activity for larger organizations. Most representatives of small organizations believed that they have neither the resources nor the political influence to play a significant role. A few participants from small organizations disagreed with this view, however, and said that policy development was actually the primary focus of their organization. Based on our findings, the main difference between large and small organizations that participate successfully in policy development seems to be that large organizations participate as *part* of their mission, while for small organizations, participation occurs only when policy development is their main or only mission. A number of participants also stated that influence on policy development was limited because their organizations are not located in Ottawa or in their provincial capitals.

## Summary

The organizations we consulted face a range of external and internal structural capacity issues. Participants identified planning and development as the greatest challenge for their organizations. Issues related to infrastructure and process capacity were mentioned slightly less frequently. Relationship and network capacity and policy development were of lowest priority because organizations lacked the resources necessary to engage in these activities.

Many of the issues that were identified ultimately relate to a dependence on project-based, time-limited funding that does not support organizational infrastructure. As well, uncertainties about future funding and constraints on how current funds can be used appear to have a significant effect on the ability of organizations to plan strategically. Many participants reported that funders often believe that nonprofit organizations do not require financial support for infrastructure and operations, and are more willing to fund activities with



“I think that if you are big, then likely you have a bigger infrastructure and an executive director. You have people who maybe are able to influence the policy decisions a bit better than a smaller organization.”

– Vancouver

“We have these umbrella organizations to try to impact public policy because individually we don’t have the staff or the time or the effort or the energy, although we have the desire to get involved.”

– Toronto

“The only real way to effect change at the national level is through national collaboration with such groups as the Voluntary Sector Roundtable that the government set up, or with national organizations.”

– Peterborough

measurable outcomes. Frequent changes in funding priorities also pose problems, as organizations must sometimes deviate from their missions in order to qualify for funding.

Funding problems, in turn, make it more difficult for organizations to attract and retain staff and volunteers with the research, networking, planning, and communications skills needed to build solid infrastructure. Finding the time and human resources to undertake such activities appears to be difficult for many organizations, particularly those that are facing increasing demands for their services. Problems related to funding also seem to limit the ability of organizations to build other types of structural capacity, including information technology and systems, collaborative networks for the sharing of resources, physical infrastructure, and input into policy development.

### **Regional Variations in Capacity**

There were relatively few regional variations in the capacity, needs and challenges among the nonprofit and voluntary organizations in our study. There were, however, some variations in the political and economic environments in which these organizations operate. For example, governments in British Columbia, Ontario, and Alberta are at different stages of retrenchment. Retrenchment occurred in the early 1990s in Alberta, in the mid- to late 1990s in Ontario, and has only recently begun in British Columbia. Nonprofit and voluntary organizations in these provinces are thus at different stages in their ability to deal with retrenchment.

When asked what external factors could be changed to enhance revenue generation, very few participants in Alberta, particularly in Calgary, spoke of securing more government funding. They did identify lack of stability in government funding as a problem, but this may have been because the Alberta Community Lottery Board (ACLB) program, which funded many nonprofit and voluntary organizations, had been eliminated only a few days before our focus group sessions and only a few days after the closing deadline for ACLB project-funding applications.

In Ontario, nonprofit and voluntary organizations seem to still be in the process of adjusting to government cutbacks. In British Columbia, provincial government cutbacks have recently and rather abruptly forced organizations to seek ways of diversifying their funding sources.

In Quebec, several events and changes in the past decade have affected the environment in which nonprofit organizations operate. The 1996 Summit on





the Economy and Employment improved government recognition of the nonprofit sector and led to better funding arrangements. The introduction of the new Civil Code in 1994 increased the responsibilities of nonprofit boards, leading to recruiting challenges for nonprofit organizations. However, our results from Quebec indicate that organizations there are facing the same capacity challenges as organizations in other parts of the country.

In British Columbia, Alberta, Manitoba, Saskatchewan, and Quebec, governments are heavily involved in lotteries, bingos, and casinos. Participants told us that this was causing problems for many organizations that do not qualify for lottery funding, which is now allocated by centralized agencies. While one might have assumed that this issue would have emerged in Ontario as well, it did so only indirectly with some organizations reporting that they were having difficulties accessing funding from a government foundation that is funded with lottery revenues.

In British Columbia, a number of participants indicated that they were having trouble finding the resources (time, money, and people) to meet the new accreditation requirements that have been established for social service organizations.

Participants in the Atlantic provinces expressed many of the same challenges in the areas of finance, human resources, and structural capacity that were noted in other regions. Despite similar constraints, however, participants believed that the rate of volunteerism was higher in Atlantic Canada than elsewhere.

Finally, Ontario participants expressed concerns about pending privacy legislation that they believed would make it illegal to collect, use, or disclose personal information without prior consent. They feared that this legislation would cripple the ability of organizations to raise funds efficiently.

## CONCLUSIONS

The representatives of the nonprofit and voluntary organizations who participated in our study displayed passion for and commitment to the missions of their organizations and pride in their ability to operate within what they perceive to be an increasingly constraining external environment. They pursue a variety of goals and objectives in such diverse areas as Arts and Culture, Sports and Recreation, Health, Social Services, the Environment, Education and Research, and Religion. Some focus on the needs of their members, but many others serve broader needs. They all share a common orientation: the pursuit of social and collective goals.


People are at the heart of nonprofit and voluntary organizations, so it should come as no surprise that most participants in our study identified human capital as their greatest strength. When describing the paid staff and volunteers in their organizations, participants often spoke about their commitment, dedication, talent, energy, and caring. Participants identified their ability to draw on their networks and relationships with members, supporters, and other organizations as another strength. This use of social capital enables organizations to collaborate in ways that may be unique to the nonprofit and voluntary sector.

However, participants in our consultations reported that nonprofit and voluntary organizations have problems with respect to financial capacity. Indeed, most identified financial capacity issues as posing the greatest challenges for their organization. Funding challenges are serious because they have implications for other areas of capacity. Participants indicated that they did not just need more money, they needed better money, that is, revenue that is flexible enough to give organizations a degree of autonomy so that they can engage in planning and development, decide what activities to pursue, and develop and maintain their human resources.

Despite obvious resourcefulness and commitment to their missions, participants indicated that their organizations are struggling to adapt to changes in the external environment. They frequently reported difficulties dealing with the impact of government downloading and cutbacks in government funding, a greater emphasis on project funding instead of core funding, increasing competition for scarce resources, and mandated collaborations with other organizations.

Participants reported that the changing funding environment is creating the greatest difficulties. Participants reported that funders, particularly





government funders, target funding to support priorities that they themselves establish but then often change. For many organizations, this means having to invest substantial time and energy in continually applying for new funding and adapting to constant disruptions in their activities. Funding appears to be available for direct program costs, but not for infrastructure. While participants often affirmed the need for financial accountability, they also said that accountability requirements have become excessive and are taking time away from program development and delivery.

Based on what participants told us, current government funding practices seem to be aimed at trying to turn nonprofit and voluntary organizations into cost-efficient extensions of government. As a result, the ability of these organizations to do what they do best may be undermined. Because nonprofit and voluntary organizations are often rooted in the communities they serve, they are able to identify and respond to needs earlier, more quickly, and more innovatively than their government funders.<sup>9</sup> However, this requires some degree of autonomy and capacity for independent action.

The desire for more core funding, and for more stable and long-term funding, were common themes in our discussions about financial capacity. Such funding would help organizations support administrative and infrastructure costs, and give them the autonomy to direct their services and programs where they believe they are most needed.

The current funding environment appears to be affecting other areas of structural and human resources capacity as well, including recruitment and management of staff and volunteers, staff retention, staff and volunteer training, and building and maintaining organizational infrastructure.

Several non-financial issues also pose problems for organizations, including inaccurate public perceptions, the regulatory and legislative framework, negative media coverage, and the declining availability of volunteers, especially those with the types of skills that organizations need.

Before turning to implications for further research, it is important to point out that our results are based on a small sample of organizations that may not represent the entire nonprofit and voluntary sector in Canada. Although a representative cross-section of organizations was invited to attend, it is likely that the focus groups attracted participants who were particularly interested in the capacity issues presented for discussion. Given the notable emphasis of our participants on issues associated with external funding, it is possible that our sample is over-represented by organizations that depend heavily on external

<sup>9</sup> *The work of nonprofit and voluntary organizations in responding to such issues as AIDS and breast cancer, far in advance of government initiatives, is often cited as an example of their ability in this area.*

funding. For these reasons, generalizing the results of this study to the whole nonprofit and voluntary sector should be avoided.


This study raises a number of questions that merit further research. In the next phase of the NSNVO research project, we will conduct a national survey that will quantitatively assess the extent to which the various capacity-related issues that have been identified in this research apply across the entire nonprofit and voluntary sector. This survey will allow us to determine, with more certainty, the extent to which the various capacity issues reported on here vary according to attributes such as organization size, area of activity, region, and extent of dependency on external funding.

Our research raises a number of important questions about the internal and external operating environment of nonprofit and voluntary organizations in Canada. These include:

- How has the availability of stable core funding changed over time and to what extent do these changes correlate with changes in capacity?
- How prevalent is project-based funding and to what extent is it a feature of funding for different types of organizations (e.g., Arts and Culture, Health, Social Services)?
- To what extent do different types of funders (e.g., government, foundations, corporations) use project-based approaches to funding?
- How do funders view the current funding environment? What are their reasons for funding nonprofit and voluntary organizations, and the rationale underlying their use of project-based funding approaches? Are funders aware of the capacity challenges that nonprofit and voluntary organizations face?
- What are the practices, policies, and strategies that allow some nonprofit and voluntary organizations to develop greater capacity than others? How can these best practices, policies and strategies be used by other organizations to increase the capacity of the sector generally?
- What role do public perceptions of nonprofit and voluntary organizations play in facilitating or constraining the capacity of organizations to fulfill their missions?

This study provides a rich, but preliminary, picture of the strengths of nonprofit and voluntary organizations in Canada, as well as the challenges they





are facing with respect to their capacity to serve their members and the public. Our findings suggest that improvements in the capacity of these organizations to fulfill their missions and achieve their goals could be obtained by addressing some of the external factors that appear to impede organizational performance.

Attention to financial capacity issues, and especially funding mechanisms, may have the greatest impact. However, consideration should also be given to building on the strengths identified by nonprofit and voluntary organizations, in particular their ability to optimize the use of human, relationship, and network capital.

Although the results of this study require further substantiation, they also suggest ways to strengthen efforts to build capacity among nonprofit and voluntary organizations. These include the development and implementation of:

- new funding models that provide nonprofit and voluntary organizations with the stability and support they need to develop human capital and organizational infrastructure, and to engage in long-term planning;
- new models of financial accountability that reduce the burden on organizations while providing funders with assurances that funds are being used appropriately;
- approaches to volunteer recruitment and management that meet the changing needs and interests of potential volunteers;
- strategies to reduce competition among organizations and increase opportunities to share resources and infrastructure;
- strategies to help organizations provide training for paid staff, volunteers, and board members; and,
- strategies to improve public and media awareness of the value of nonprofit and voluntary organizations, their contributions to society, and their need for support.

Nonprofit and voluntary organizations are unique in their ability to draw on the talent, energy, and commitment of their staff and volunteers. However, they appear to face considerable constraints on their capacity to serve Canadians. In the next phase of the NSNVO we will map, for the first time, the size and scope of the sector and provide a quantitative assessment of its strengths and weaknesses.



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## APPENDIX A: METHODOLOGY

This report is based on results from a series of focus groups with representatives of a diverse array of nonprofit and voluntary organizations and a small number of interviews with key informants from national organizations.<sup>1</sup> To inform the design of the qualitative research, we also conducted a review of literature related to nonprofit organizational capacity. Specific details about the focus group methodology and interviews are provided below. This is followed by an overview of our approach to the literature search and review.

### Focus Groups

Focus groups are a form of semi-structured interview conducted in a group setting. They are often used to identify the range of views that participants have about certain issues, and to provide a preliminary indication of the prevalence of these views.

A total of 36 focus groups were conducted in 13 communities across Canada in April and May of 2002 (see Table 1). Each group concentrated on organizational issues associated with one of three capacity areas: financial capacity, human resources capacity, and structural capacity. To provide regional representation, six groups were conducted in each of six regions: British Columbia; Alberta; Manitoba and Saskatchewan; Ontario; Quebec; and Atlantic Canada. Representatives from Prince Edward Island attended consultations in Atlantic Canada. The focus groups were conducted in English everywhere except in Quebec, where they were conducted in French. On average, twelve to fifteen representatives of organizations attended each session. Sessions lasted approximately three hours.

**Table 1. Focus Group Locations According to Topic**

Location	Number of Groups		
	Financial Capacity	Human Resources Capacity	Structural Capacity
Victoria, BC	1	1	0
Vancouver, BC	1	1	2
Calgary, AB	1	1	1
Edmonton, AB	1	1	1
Winnipeg, MB	1	1	1
Regina, SK	1	1	1
Toronto, ON	1	1	1
Peterborough, ON	1	1	1
Montreal, QC	2	1	1
Quebec, QC	0	1	1
Halifax, NS	1	0	1
St. John, NB	0	1	1
St. John's, NL	1	1	0

<sup>1</sup> For the purposes of this research, national organizations are considered to be organizations that have a national mandate or that have subsidiary chapters or offices throughout the country.

Each focus group session began with participants describing their organization's mission and objectives. Participants were then asked to indicate their organization's greatest strength with respect to its ability to achieve its objectives, and the one thing that would most improve the ability of their organization to achieve those objectives. Following this, participants were asked to focus specifically on one of the three capacity areas (financial, human resources, or structural). In each session, participants were asked to report on the external factors that affected their organization's ability to fulfill its mission and objectives, and on internal capacity issues.

## **The Participants**

Participants were recruited to ensure broad representation from a variety of organization types (i.e., Social Services, Health, Education and Research, Religion, Arts and Culture, Sports and Recreation, Housing and Development, Environment, International Development, Law and Advocacy, Fundraising and Volunteerism, and Business and Professional Associations). We also tried to ensure that participants represented organizations of various sizes and that the perspectives of volunteers, staff, and board members were represented.

For each location, organizations were selected from a list that was compiled from the following sources: a random sample of registered charitable organizations drawn from a database provided by Canada Customs and Revenue Agency (CCRA); a selection of nonprofit organizations without registered charity status drawn from the 2001 Directory of Associations (Associations Canada, 2000); and lists provided by members of the Voluntary Sector Research Consortium.

Approximately 250 invitations were mailed to nonprofit and voluntary organizations in each of the six regions. A letter was sent to the executive director or president of each organization, inviting them to send a representative to the focus groups. The letter indicated that the focus groups were intended to address topics in which they might have an interest. A brief description of the topics to be covered by the various focus groups was provided. Potential participants selected the area that most interested them until the groups were full, at which point they were given the option of attending another session.

The organizations that sent participants to the focus groups represented a variety of nonprofit and voluntary organizations. Approximately two thirds of the organizations were registered charities. Almost two thirds were Social Service, Health, or Education and Research organizations. Approximately half reported annual revenues of \$500,000 or more. Most focus group participants held paid staff positions within their organization; a minority served as either volunteers or board members.

## **National Organizations**

Twelve interviews were conducted during June, July, and August of 2002 with key informants from national organizations to explore whether or not these organizations had unique capacity issues. The interviews addressed all areas of organizational capacity and lasted from one to two hours.

## **Analysis of Focus Groups and National Organization Materials**

All of the focus groups and national organization interviews were recorded on audio tape and notes were taken. Audio recordings of the focus groups were transcribed. Review of this material involved a systematic analysis of both the transcripts and notes. In this report, findings from the national organization interviews are merged with findings from the focus groups where shared perspectives were evident.

## **Limitations of the Study**

A number of limitations to this study should be noted. First, the research is exploratory and is intended to document only the range of capacity-related issues identified by organizations in our study.

Second, the list from which we selected organizations for participation in the study was not an exhaustive list of all the nonprofit and voluntary organizations in Canada. For this reason, the sample may not completely represent the sector as a whole.

Third, our sampling strategy was, in part, purposive, meaning that some organizations were deliberately selected into the pool of participants. This was done to help ensure that participating organizations would represent the sector overall, according to major attributes such as area of activity and level of revenue. To some extent, our sample may also be non-random because it is likely that those who chose to attend were those for whom the capacity issues under investigation were particularly salient.

It would not be appropriate to conclude that our findings can be generalized to all nonprofit and voluntary organizations. In the next phase of the NSNVO, we will be able to provide a more conclusive assessment of the extent to which some of the capacity issues identified in this study hold for the broad population of Canadian nonprofit and voluntary organizations.

## **Approach to the Review of the Literature**

To assist the design of the focus groups and interviews, the literature on nonprofit organizations was reviewed to identify capacity issues that had been noted in previous research. The literature review focused primarily on Canadian research, although American and British research was reviewed if it seemed pertinent. The following searches were completed as part of this process:

- A bibliographic search of library databases for published literature, including: the University of Toronto Catalogue (UTCAT); York University (YORKLINE); Queen's University (QCAT); the Université du Québec à Montréal's library database; Repère, provided by les Services Documentaires Multimédia (SDM) in collaboration with the Bibliothèque Nationale du Québec; Manitou from the Université du Québec (Montreal, Outaouais, Rimouski, and Chicoutimi); Social Science Abstracts; Sociological Abstracts; and E-Journals (Nonprofit World, Nonprofit Management and Leadership, and Social Indicators Research).

- A search of the Canadian Centre for Philanthropy's voluntary sector research Web site, nonprofitscan.ca, which includes a Research-in-Progress Catalogue of Canadian research and an on-line library of published works.
- A review of research conducted or collected by the Canadian Centre for Philanthropy and its Imagine Program; an Internet search of nonprofit and voluntary sector Web sites such as charityvillage.com and idealist.org; and a global Internet search using key words.
- An Internet key word search using the search engines Google, AltaVista, Yahoo, and Copernic.

The literature review revealed that there was little Canadian research relating to the capacity of nonprofit and voluntary organizations. There was, however, English-language literature from the United States and the United Kingdom and French-language literature from Belgium and France identifying a variety of capacity issues that appeared relevant to the Canadian context. The results of the English- and French-language literature reviews, respectively, are summarized in Appendices C and D.



## **APPENDIX B: RESEARCH QUESTIONS**

A series of research questions guided each of the regional focus groups. The specific questions are listed below according to financial capacity, human resources capacity, and structural capacity topic areas. Regardless of the topic area, all participants were asked, first, to convey what they perceived to be their organization's greatest strength in achieving its objectives and, second, to identify the "one thing" that would most improve their organization's ability to fulfill its mission and achieve its objectives.

### **Financial Capacity Questions**

#### **General**

1. What is your organization's greatest challenge with respect to its ability to finance its activities and to manage its finances?

#### **Revenue Generation**

1. How does the way in which your organization is financed affect its ability to achieve its objectives?
2. Is there anything that you would like to see changed in your organization's external environment to help strengthen your organization's finances?
3. Is there anything you would like to see changed internally to help strengthen your organization's finances?

#### **Financial Management**

1. How satisfied are you with your organization's ability to manage its budgets and keep track of where the money is going?
2. Is there anything that you would like to see changed in your organization's external environment to help strengthen your organization's financial management?
3. Is there anything that you would like to see changed internally to help strengthen your organization's financial management?

### **Human Resources Capacity Questions**

#### **General**

1. What is your organization's greatest challenge in the area of human resources?

#### **Volunteers**

1. Do you have problems obtaining the kinds of contributions you would like from your volunteers?
2. Is there anything that you would like to see changed in your organization's external environment to help strengthen the contributions of your volunteers?
3. Is there anything that you would like to see changed internally to help strengthen the contributions of your volunteers?

#### **Paid Staff**

1. Do you have any problems obtaining the kinds of contributions you would like from your paid staff?

2. Is there anything that you would like to see changed in your organization's external environment to help strengthen the contributions of your paid staff?
3. Is there anything that you would like to see changed internally to help strengthen the contributions of your paid staff?

### **Board Members**

1. Do you have any problems obtaining the kinds of contributions you would like from your board members?
2. Is there anything that you would like to see changed in your organization's external environment to help strengthen the contributions of your board?
3. Is there anything that you would like to see changed internally to help strengthen the contributions of your board?

## **Structural Capacity Questions**

### **General**

1. What is your organization's greatest challenge in the area of structural capacity?

### **Planning, Development and Research**

1. What is your organization's greatest challenge with respect to developing its vision for the future and a plan to get there?
2. How satisfied are you that your organization is working towards its objectives, mission and vision, or following the strategic plans developed?
3. Is there anything that you would like to see changed in your organization's external environment to help strengthen your organization's development?
4. Is there anything that you would like to see changed internally to help strengthen your organization's development?

### **Relationships and Networks**

1. What sorts of relationships or networks are important to your organization?
2. What is your organization's greatest challenge with respect to relationships and networks?
3. How satisfied are you with your organization's ability to build and maintain these relationships?
4. Is there anything that you would like to see changed in your organization's external environment to help strengthen your organization's ability to develop and maintain relationships?
5. Is there anything that you would like to see changed internally to help strengthen your organization's ability to develop and maintain relationships?

### **Policy Capacity**

1. How satisfied are you with your organization's policy capacity?
2. Is there anything that you would like to see changed in your organization's external environment to help strengthen your organization's ability to inform policy?
3. Is there anything that you would like to see changed internally to help strengthen your organization's ability to inform policy?



### **Organizational Infrastructure, Processes, and Systems**

1. What is your organization's greatest challenge with respect to organizational infrastructure, processes, and systems?
2. How satisfied are you with your organization's infrastructure, processes, and systems?
3. Is there anything that you would like to see changed in your organization's external environment to help strengthen your organization's infrastructure, processes, and systems?
4. Is there anything that you would like to see changed internally to help strengthen your organization's infrastructure, processes, and systems?
5. Are there any other things that would help your organization's infrastructure, processes, and systems?



## **APPENDIX C: SUMMARY OF THE ENGLISH-LANGUAGE LITERATURE REVIEW**

The results of our review of the literature on the capacity issues and challenges that confront nonprofit and voluntary organizations are summarized below. The review focuses mainly on Canadian research. However, research from the United States and the United Kingdom is included where pertinent. We identified external factors that appear to have a significant influence on capacity, together with the capacity challenges that they create. For each of the major capacity issues — financial, human resources, and structural — we give an explanation of the availability of literature, followed by a brief discussion of the main points that emerged in the literature. The literature itself is summarized in the tables that follow. The first column of each table outlines factors in the external environment that affect organizational capacity. The second column outlines the capacity issues resulting from the external factors facing nonprofit and voluntary organizations.

We first review the literature on financial capacity. This is followed by a review of the literature on human resources and structural capacities.

### **Financial Capacity Literature**

Our review of the literature on financial capacity pertains to two areas: revenue generation, and financial management and accountability. We found a limited amount of Canadian literature on revenue generation. The literature on this topic focuses heavily on registered charities while organizations that do not have charitable status receive much less attention. There was also a dearth of Canadian literature on financial management in nonprofit and voluntary organizations. Consequently, many of the observations on these topic areas were drawn primarily from American studies.

A theme that emerged clearly in the literature is that nonprofit and voluntary organizations frequently encounter significant financial challenges that may affect their stability and sustainability. A number of external factors influence the financial capacity of nonprofit and voluntary organizations. The retrenchment of the state has had a major impact on the funding of nonprofit and voluntary organizations. Government withdrawal from the provision of many services has negatively affected both the target populations of these services, and the organizations that are now expected to meet the demand for these services (Browne, 1996; Captain William Spry Community Centre, Metro Community Services Network & Nova Scotia Association of Social Workers, 1998; Harvey, 1999; Rekart, 1993). In many instances, nonprofit and voluntary organizations have faced increased demand for services as governments turn to nonprofit and voluntary organizations as preferred providers of services formerly delivered by the government (Evans & Shield, 1998; Rekart, 1993, 1999). Research suggests that government support has shifted more heavily to providing project funding rather than operating funds (Social Planning Council of Metropolitan Toronto, 1997; Rekart, 1993). In some instances, government retrenchment has also negatively affected the ability of organizations to meet their missions (Alexander, 1999; Smith & Lipskey, 2001; Social Planning Council of Metropolitan Toronto, 1997; Weisbrod, 1998; Zimmerman & Dart, 1998).

The impact of government downloading may depend, however, on whether governments retrench by decreasing direct service delivery or by developing contractual relationships with nonprofit and voluntary organizations to deliver services (Browne, 1996; Social Planning Council of Metropolitan Toronto, 1997; Rekart, 1993; Zimmerman & Dart, 1998). Some organizations have managed to maintain an adequate level of service and program delivery by developing adaptive strategies to such changes (Alexander, 2000; Azmier, 2000), and by paying more attention to internal sources of financing (Chang & Tuckman, 1990; Tuckman, 1993).<sup>1</sup> Some studies have noted that increased commercialization stemming from the need to find alternative sources of revenue may lead nonprofit organizations to compete with commercial operators for limited government funding, to spend resources on negotiations for funding, and to lose autonomy, the ability to innovate, and the ability to respond to community needs (Alexander, 2000; McMurty, Netting & Kettner, 1991; Weisbrod, 1998).

Our review of the literature suggests that the financial trends of the 1990s (e.g., reductions in government spending), have required nonprofit and voluntary organizations to diversify their sources of income. To this end, organizations have increasingly felt the need to professionalize their financial systems, fundraising and marketing strategies, and financial management processes (Rekart, 1999; Salamon, 1995). Some research suggests that large and established organizations are better able to adapt to changes in the funding environment by adopting new, more business-oriented practices, while newer and smaller organizations struggle to cope. Smaller organizations often lack the human resources and structural capacity to adopt the strategies required to pursue alternative revenue-generating activities (Alexander, 1999).

With responsibility for the delivery of many public services increasingly entrusted to the voluntary sector, it has become more important than ever to understand the financial resource strengths and limitations of nonprofit organizations. Some studies have noted that nonprofit and voluntary organizations are increasingly called on to demonstrate their effectiveness and efficiency through outcome and accountability measures (Hall, Greenberg & McKeown, 2000; Hall, Phillips & Pickering, 2001; Orr, 1999; Palmer & Randall, 2002; Panel on Accountability and Governance in the Voluntary Sector, 1998). Financial, human resources and technological capacities have become important in meeting these requirements (Alexander, 1999, 2000). However, the literature suggests that some organizations, particularly smaller ones, lack the skilled staff, and management-information systems to perform financial management tasks effectively (Cohen & Eimicke, 1995; Nitterhouse, 1997).

Table 1a summarizes the major findings relating to revenue generation. Table 1b summarizes the major findings relating to financial management and accountability.

<sup>1</sup> Such strategies, according to Alexander (2000), include: (1) a well-planned expansion of organizational programs to include new services and populations; (2) development of appropriate business management techniques (i.e., strategic planning, technological capacity building, marketing); (3) cultivation and maintenance of inter-organizational networks and linkages; and, (4) maintenance of a public service character through revenue-generating activities.

**Table 1a. Summary of Financial Capacity Issues: Revenue Generation**

**FUNDING**

**External Factors**

**Related Capacity Issues**

**Declining funding from government**

As a result of government retrenchment in the mid-1990s, there has been a decline in funding from government in general (Browne, 1996).<sup>†</sup> Certain subsectors such as arts (Harvey, 1999)<sup>†</sup> and social services (Captain William Spry Community Centre et al., 1998; Rekart, 1993, 1999)<sup>†</sup> have faced considerable funding reductions from government sources.

- *Increased reliance on nongovernmental sources of funding*, such as corporate partnerships and social marketing (Canadian Fundraiser, 1996, 1995;<sup>†</sup> Dart & Zimmerman, 2000;<sup>†</sup> File & Prince, 1995;<sup>\*</sup> Jegen, 1998;<sup>\*</sup> Pepin, 2002;<sup>†</sup> Social Planning Council of Metropolitan Toronto, 1997<sup>†</sup>) and charitable gaming (Azmier, 2000).<sup>†</sup>
- *Cutting back of programs and services* (e.g., eliminating programs, reducing outreach, increasing waiting time for services) (McMurty et al., 1991).<sup>\*</sup>
- *Increased attention to internal financing sources or surplus funds* (Chang & Tuckman, 1990; Tuckman, 1993).<sup>\*</sup>
- *Expansion of activities to include new programs, services, and target populations* (Alexander, 2000).<sup>\*</sup>
- *Using networks for bartering purposes* (e.g., garnering resources and professional services) (Alexander, 2000).<sup>\*</sup>
- *Increased focus on diversified sources of revenue* (Hall, 1995).<sup>†</sup>
- *Danger of mission drift* from pursuing government contracts and commercial activities (Alexander, 1999;<sup>\*</sup> Smith & Lipskey, 2001;<sup>\*</sup> Social Planning Council of Metropolitan Toronto, 1997;<sup>†</sup> Weisbrod, 1998;<sup>\*</sup> Zimmerman & Dart, 1998<sup>†</sup>).
- *Development of appropriate business management techniques* (e.g., strategic planning, technological capacity building, marketing; Alexander, 2000).<sup>\*</sup>
- *Increased efforts to improve productivity through inducements* (e.g., increased employee participation in decision-making, increased staff training; McMurty, Netting & Kettner, 1991).<sup>\*</sup>
- *Implementation of internal retrenchment strategies designed to save money* (e.g., through increasing workload, reducing staff, using more volunteers, or raising fees, rather than using strategies aimed at dealing with funding agencies; Bielefeld, 1994).<sup>\*</sup>

**Shift to project funding**

The government strategy on funding nonprofits has shifted from core funding to project funding (Browne, 1996; Dart & Zimmerman, 2000; Evans & Shields, 1998; Juillet et al., 2001; Orr, 1999; Social Planning Council of Metropolitan Toronto, 1997).<sup>†</sup>

- *Poor planning and development capacity resulting from a loss of financial stability* (Bielefeld, 1994).<sup>\*</sup>
- *Deviation from original mission and activities, and organizational restructuring in order to qualify for needed funding* (e.g., changing organizational scope, merging with other organizations, and franchising programs). An organization may engage in activities that governments will fund instead of activities that it believes its clients need most or that the organization does best (Smith & Lipsky, 2001; McMurty, Netting & Kettner, 1991).<sup>\*</sup>

Note: <sup>†</sup> Canadian literature; <sup>\*</sup> American literature; <sup>‡</sup> British literature; <sup>§</sup> Theoretical/conceptual literature without specific country context.

**Table 1a. Summary of Financial Capacity Issues: Revenue Generation (continued)**

FUNDING

**External Factors**

**Related Capacity Issues**

**Increased contracting arrangements**

As governments restructure the responsibility for direct provision of services, they rely increasingly upon strategies such as contracting (Rekart, 1993, 1999; Browne, 1996; Dart & Zimmerman, 2000).<sup>†</sup>

- *Reduced latitude for activities outside the contract scope* (Brock & Banting, 2001; Browne, 1996; Dart & Zimmerman, 2000; Mitchell et al., 2001; Rekart, 1993, 1999).<sup>†</sup>
- *Loss of individual donor funding due to increasing reliance on government contracts and corporate marketing programs.* Donors may conclude that their support is no longer required when organizations receive funding from government and corporations (Sargeant & Kahler, 1999).<sup>‡</sup>
- *Reduced organizational autonomy* (Rekart, 1993, 1999;<sup>†</sup> Salamon, 1995; Social Planning Council of Metropolitan Toronto, 1997<sup>†</sup>).
- *Increased professionalization of nonprofit and voluntary organizations* (e.g., changing human resources needs, such as skills in compliance management, budgeting, and program management skills) (Bernstein, 1991).<sup>\*</sup>

**Increased competition for funding**

Nonprofit and voluntary organizations face increased competition for corporate donations (Nyp, 1998;<sup>†</sup> Froelich, 2000<sup>†</sup>).

Nonprofit and voluntary organizations face increased competition for individual donations (Froelich, 2000; Weisbrod, 1998).<sup>\*</sup>

- *Greater emphasis on the board's role in strategic planning as the key to financial capacity,* particularly in building philanthropic support for special programs, capital expansion, and endowments (Cushman, 1990).<sup>§</sup>
- *Growing awareness of the need for improved fundraising strategies* (Gelles, 2001).<sup>§</sup>
- *Recognition of a lack of appropriate resources* (e.g., information technology, skilled personnel) for effective fundraising (Whiteley & Baker, 1996).<sup>‡</sup>

**Increased demand for services**

The demand for services is increasing as governments turn to nonprofit organizations as preferred providers of public services formerly delivered by government agencies (Browne, 1996; Evans & Shields, 1998; Rekart, 1993, 1999).<sup>†</sup>

- *Expansion of organizational activities to include new programs, services and target populations* (Alexander, 2000).<sup>\*</sup>
- *Increased demand on organizations' human capital* (e.g., increasing staff work loads, increasing reliance on volunteers, limiting overtime and compensatory time; McMurty, Netting & Kettner, 1991).<sup>\*</sup>

Note: <sup>†</sup> Canadian literature; <sup>\*</sup> American literature; <sup>‡</sup> British literature; <sup>§</sup> Theoretical/conceptual literature without specific country context.

**Table 1b. Summary of Financial Capacity Issues: Financial Management and Accountability**

FINANCIAL MANAGEMENT AND ACCOUNTABILITY

**External Factors**

**Related Capacity Issues**

**Increasing requirements for financial management and accountability**

Funders are increasingly interested in the ways in which organizations allocate resources for specific programs and activities, and the feasibility and viability of new initiatives (Wacht, 1984).<sup>§</sup>

Nonprofit and voluntary organizations seeking funds from external sources are often pressured by funding agencies to demonstrate their financial accountability and effectiveness (Hall, Greenberg & McKeown, 2000;<sup>†</sup> Hall, Phillips & Pickering, 2001;<sup>‡</sup> Orr, 1999;<sup>‡</sup> Palmer & Randall, 2002;<sup>§</sup> Panel on Accountability and Governance in the Voluntary Sector, 1998<sup>†</sup>).

- *Need for additional resources to meet new requirements of funding and regulatory agencies* (Ferronato, 2002; Young, 1996). <sup>†\*</sup> Smaller organizations may have lower capacity to sufficiently meet financial management requirements (Cohen & Eimicke, 1995; Nitterhouse, 1997).<sup>\*</sup>
- *Lack of skills and expertise* among managers and board members to analyze budgets and take appropriate management action, and a lack of skills in forecasting revenues and expenses (Haas & Giamb Bruno, 1994; Herzlinger & Nitterhouse, 2001).<sup>\*</sup>
- *Inability to devote capital and human resources to developing quantifiable measures of project and program outcomes* (Herzlinger & Nitterhouse, 2001).<sup>\*</sup>

ACCREDITATION AND LICENSING

**External Factors**

**Related Capacity Issues**

**Demands for greater accreditation and licensing**

Health and social service licensing organizations have put greater accreditation and licensing demands on health and social service organizations (Alexander, 1999).<sup>\*</sup>

Donor mandated rules and regulations prescribe government-voluntary sector relationships in the following areas: (1) administrative conditions, such as the requirements for audits and fiscal standards, and compliance with provincial standards and rules; and (2) programmatic conditions, such as eligibility requirements, and service delivery methods and procedures.

- *Growing requirement for highly skilled staff.* Accreditation and licensing often require organizations to employ highly skilled staff, especially knowledge workers, even though organizations often cannot pay the competitive wages needed to attract and retain highly skilled staff (Alexander, 1999).<sup>\*</sup>
- *Difficulty by nonprofit organizations in competing successfully for funding and in complying with funders' requirements* (Kramer, 1994; Juillet et al., 2001; McFarlane & Roach, 1999).<sup>†</sup>

Note: <sup>†</sup> Canadian literature; <sup>\*</sup> American literature; <sup>‡</sup> British literature; <sup>§</sup> Theoretical/conceptual literature without specific country context.

## **Human Resources Capacity Literature**

Our review of the literature on human resources capacity focused on three main types of human resources: volunteers, paid staff, and boards of directors. It covered areas such as recruitment (available labour pool, compensation, and skill sets), management and deployment (placement, motivation, retention, development, training, education, labour relations, and monitoring and evaluation), and leadership (boards, executives, planning, and development). The literature review revealed that there is limited Canadian research available on the human resources capacity issues of nonprofit and voluntary organizations. Consequently, many of the observations on these topics were drawn primarily from American studies.

A variety of external factors, such as the shift to project-based funding, have negatively influenced human resources development in nonprofit and voluntary organizations by reducing the resources available to recruit, manage, and deploy staff (Winkler, 2001). Research findings suggest that in some organizations the number of paid staff declined in the late 1990s, and that, as a result, organizations have insufficient staff to deliver programs and services (Municipality of Metropolitan Toronto, 1997; Rappaport). Changing market and labour force conditions have also influenced the ability of nonprofit and voluntary organizations to attract new staff (Conry & McDonald, 1994; McMullen & Schellenberg, 2002, 2003). At the same time, the growing importance of the knowledge economy has increased the demand for knowledge workers (Winkler, 2000). Nonprofit managers are, however, reluctant to invest scarce financial resources in human resources development (Matijevic, 1996).

Our review of the literature also suggests that the nature and scope of employment, and the skill levels of staff and volunteers, may vary substantially by the size of the organization, the people it aims to serve, and its goals. Data from the nonprofit and voluntary sector show that employment in charitable organizations is concentrated in a few types of charities (e.g., health and welfare organizations, teaching institutions, and social services; McMullen & Schellenberg, 2002; Sharpe, 1994). These conditions undoubtedly have an impact on the operation of an organization and the amount of work that it can undertake.

Although skills and competencies have gained increasing importance as nonprofit and voluntary organizations engage in more complex relationships with public and private sector organizations, existing literature suggests that, at the managerial level, there is a greater need for skills development in areas such as project management, contracting, procurement, and training (Cook, 1988; DiMaggio, 1988). However, organizations face constraints in attracting staff with these skills because donors are reluctant to support organizations that pay high wages (Oster, 1998). A number of persistent difficulties such as dissatisfaction with pay and benefits, unpaid overtime, heavier workloads, and a high incidence of temporary and part-time employment pose threats to the human resources sustainability of these organizations (McMullen & Schellenburg, 2003).

The literature suggests that effective management and leadership of nonprofit and voluntary organizations depends not only on the engagement of the individual talents of board members, but also on acquisition and development of an appropriate blend of skills (DiMaggio, 1988; Herman &

Heimovics, 1990; Rossheim, Kim & Ruchelman, 1995). Some studies have revealed that, in larger nonprofit organizations, boards are more involved in high-level policy development and less involved in operational activities (Kearns, 1995; Stone, 1991), while others have noted that the boards of newer nonprofit organizations are more involved in securing and nurturing links to government funders (Miller, Kruger & Graus, 1994; Smith & Lipsky, 1993).

Tables 2a to 2c summarize the major findings in the literature relating to the human resources capacity of nonprofit and voluntary organizations. Table 2a relates to staff; Table 2b to board members; and Table 2c to volunteers.





**Table 2a. Summary of Human Resources Capacity Issues: Staff**

EMPLOYMENT AND REMUNERATION

**External Factors**

**Related Capacity Issues**

**Shift to project-based funding**

The shift to project-based funding undermines human resources development as funds are allocated increasingly to program delivery and diverted away from the development of internal human resources capacity (Winkler, 2000).<sup>§</sup>

- *Decline in the number of paid workers in social service organizations in the late 1990s* (Municipality of Metropolitan Toronto, 1997).<sup>†</sup>
- *Increasing reliance on external service providers who can provide services more cost-effectively than core staff* (Winkler, 2000).<sup>§</sup>
- *A lack of paid staff in a significant number of registered charities.* Approximately 42 percent of registered charities have no paid staff and are operated exclusively by volunteers (Sharpe, 1994).<sup>†</sup> Employment in charitable organizations in Canada is concentrated in only a few types of organizations (e.g., health and welfare organizations, and teaching institutions; McMullen & Schellenberg, 2002; Sharpe, 1994).<sup>†</sup>
- *Reluctance among top managers to divert financial resources to human resources development* (Matijevic, 1996).<sup>\*</sup>
- *Insufficient staff to deliver programs and services in some organizations* (Rappaport, 2001).<sup>\*</sup>

**Constraints on salary levels**

Donors are increasingly reluctant to support organizations that pay higher wages (Oster, 1998).<sup>\*</sup>

Sensitivity to the organization's image as a charitable or public service institution leads to smaller financial rewards for employees (Young, 1987).<sup>§</sup>

- *Lower wages paid than in the for-profit and public sectors* (Browne & Landry, 1996; Handy & Katz, 1998; McMullen & Schellenberg, 2003).<sup>†</sup> In the U.S., the wage advantage of a worker in the for-profit sector over a worker in the nonprofit sector is approximately 20 percent (Preston, 1989).<sup>\*</sup>
- *Inability of smaller organizations to attract and pay for highly qualified people in senior management positions* (Rappaport, 2001).<sup>\*</sup>
- *Other benefits provided by nonprofit and voluntary organizations in lieu of financial rewards, such as flexible work hours and extra vacation time* (Young, 1987;<sup>§</sup> McMullen & Schellenberg, 2003<sup>†</sup>).

**Employment equity**

The predominance of females in the nonprofit labour force in North America cuts across all organization types and fields of activity (Browne & Landry, 1996<sup>†</sup>; Gibelman, 2000;<sup>\*</sup> McMullen & Schellenberg, 2002, 2003<sup>†</sup>). There is a lack of specific targets for hiring and promoting women and visible minorities (Gibelman, 2000).<sup>\*</sup>

- *Lack of women's participation in leadership roles.* This restricts nonprofit organizations' ability to attract new workers and adapt to changing markets, donor demographics, and resource bases (Conry & McDonald, 1994).<sup>\*</sup>

Note: <sup>†</sup> Canadian literature; <sup>\*</sup> American literature; <sup>§</sup> Theoretical/conceptual literature without specific country context.

**Table 2a. Summary of Human Resources Capacity Issues: Staff (continued)**

HUMAN RESOURCES MANAGEMENT AND DEPLOYMENT ISSUES

**External Factors**

**Related Capacity Issues**

**Increased need for training and development**

Increasingly complex relationships with the public, governments, and donors require a combination of entrepreneurial and administrative skills (Rossheim et al., 1995).\*

- *Increased demand for systematic information systems to manage and administer human resources activities* (Rappaport, 2001).\*
- *Increased need for management skills and training* programs to prepare individuals for the management of organizations (Herman & Heimovics, 1990).\*
- *Increased need for competency* in financial management, computers, information systems, organizational design, accounting, resources development, administration, human resources management, and evaluation research (Cook, 1988, DiMaggio, 1988).\*
- *Lack of adequate information technology skills and knowledge* to effectively incorporate technology into daily operations, strategic planning and financial management (Surman, Knox & Velden, 2001).† There is a lack of technical assistance centres available to support organizations' use of information technology (Prairie Research Associates, 2001; Browne & Landry, 1996).†
- *Executive staff lack stakeholder management and advocacy skills* (McCauley & Hughes, 1991).\*

**Motivation and retention issues**

Nonprofit managers' ability to use performance-based financial rewards to motivate employees is constrained by: (1) external expectations of altruism; (2) the emphasis on professionalism; and, (3) the legal and regulatory character of nonprofit organizations (Young, 1987).§

- *Greater task independence and workplace flexibility* as a means to motivate and retain people (Preston, 1990).\*
- *Constraints on the use of performance-based financial rewards to motivate employees* due to the absence of a profit-making criterion (Rappaport, 2001).\*

**Increased importance of unionization**

Increasing numbers of nonprofit employees in the United States are seeking union support as they become less secure about their employment status (Pynes, 1997).\*

- *Eight-six percent of nonprofit organizations in Canada are not unionized.* (Betcherman et al., 1998).†
- *Increasing numbers of nonprofit employees in the U.S. are seeking union support* as they become less secure about their employment status (Pynes, 1997).\*
- *Concerns about cutting staff and, consequently, programs and services to meet union salary and benefit demands* (Peters & Masaoka, 2000).\*
- *Decreased flexibility in the way decisions are made in nonprofit and voluntary organizations.* Such flexibility is seen as fundamental to developing high-quality programs and responding to changes in funding in a timely and innovative manner (Peters & Masaoka, 2000).\*

Note: † Canadian literature; \* American literature; § Theoretical/conceptual literature without specific country context.

**Table 2b. Summary of Human Resources Capacity Issues: Boards**

BOARD RECRUITMENT AND DEVELOPMENT

**External Factors**

**Related Capacity Issues**

**Decreasing availability of qualified board members**

Nonprofit organizations in the United States are facing a critical shortage of qualified candidates to serve on their boards of directors (Booz, Allen & Hamilton, 2002).<sup>†</sup>

Demographic characteristics of the local community (e.g., socioeconomic status, ethnicity, and sex) influence the type of members recruited for boards (Austin & Woolver, 1992).<sup>†</sup>

- *Failure by organizations to identify and reach out to potential board candidates.* Often overlooked are “up-and-coming” managers and non-managerial technical and functional experts, as well as minorities, and self-employed and retired people (Booz, Allen & Hamilton, 2002).<sup>†</sup>
- *Short-fall of board candidates for small and medium-sized organizations.* For the majority of nonprofit organizations that lack a well-known public profile, board recruiting has become a serious challenge (Booz, Allen & Hamilton, 2002).<sup>†</sup>

**Increasing requirement for boards with strategic planning and fundraising skills**

Environmental conditions such as shifts in government funding and competition for funding have increased the importance of entrepreneurial and visionary leadership styles (Rossheim, et. al., 1995; Young, 1983).<sup>†</sup>

A lack of funding for board development and training tends to undermine the effectiveness and success of board members (Werther & Berman, 2001).<sup>§</sup>

- *Relative scarcity of board members with core competencies* in effective leadership and governance, including contextual, educational, interpersonal, analytical, political, and strategic capabilities (Jackson & Holland, 1998).<sup>§</sup>
- *Tendency for boards of newer organizations to pursue government revenues.* Organizations without an established reputation are more prone to pursue funding from government instead of seeking funds from a variety of alternative sources (Smith & Lipsky, 1993).<sup>†</sup>
- *Lack of board expertise in business and fundraising, and lack of contacts or influence.* Without appropriate skills and development for board members, certainty about the future funding of organizations is decreased (Miller et al., 1994).<sup>†</sup>

Note: † Canadian literature; \* American literature; § Theoretical/conceptual literature without specific country context.

**Table 2c. Summary of Human Resources Capacity Issues: Volunteers**

**VOLUNTEER SUPPLY AND DEMAND, AND DEVELOPMENT**

**External Factors**

**Related Capacity Issues**

**The growing demand for volunteers**

Governments encourage the use of volunteers to provide programs and services (Municipality of Metropolitan Toronto, 1997).<sup>†</sup>

- *Heavy reliance on volunteers.* Approximately 70 percent of charities are dependent upon a volunteer work force (Sharpe, 1994).<sup>†</sup> Many organizations in the nonprofit and voluntary sector rely heavily on volunteers to carry out their core functions (Municipality of Metropolitan Toronto, 1997).<sup>†</sup> Volunteers in small organizations accounted for almost 25 percent of the total hours required to deliver programs and services (Municipality of Metropolitan Toronto, 1997).<sup>†</sup>

**The declining availability of volunteers**

Since 1997, the estimated percentage of Canadians who volunteered has declined. During this same period, the total number of hours volunteered has also declined (Hall, McKeown & Roberts, 2001).<sup>†</sup>

- *Nonprofit and voluntary organizations are facing reduced pools of available volunteers* (Hall, McKeown & Roberts, 2001).<sup>†</sup>

**Increasing demand for volunteer training, development, and management**

Nonprofit and voluntary organizations increasingly rely on volunteers to deliver programs and services (Clary et al., 1992).<sup>§</sup>

- *Lack of adequate in-house capacity to provide training to volunteers* (Browne & Landry, 1996).<sup>†</sup>
- *Decrease in volunteering for smaller organizations* because of a lack of human resources available to recruit, manage, and train volunteers (Municipality of Metropolitan Toronto, 1997).<sup>†</sup>
- *Growing importance of determining organizational needs in advance of recruiting volunteers.* Such considerations include the need to ensure that volunteer tasks are meaningful for the organization and for the volunteer and that volunteers are offered as much challenging and interesting work as possible (Brudney, 2001, 1990).<sup>\*</sup>
- *Increased need for organizations to have professionals and systems to manage and administer volunteer programs* (Brudney, 2001; Ilsley, 1990).<sup>\*</sup>
- *A lack of knowledge capacity.* Only about 25 percent of volunteers in Canada and the United States undergo training in volunteer administration before assuming work in the field (Brudney, 1992).<sup>†\*</sup>

Note: <sup>†</sup> Canadian literature; <sup>\*</sup> American literature; <sup>§</sup> Theoretical/conceptual literature without specific country context.

## **Structural Capacity Literature**

Our review of the literature on structural capacity focused on three main areas: development and planning (including strategic planning and research); stakeholder relationships and policy (including relationships with members, donors, and stakeholders; and policy capacity and networks); and infrastructure (including operating systems, resources, and organizational policies). Because of a lack of Canadian literature, this review included literature from the United States and the United Kingdom. Where there was no literature on a particular issue relating to nonprofit and voluntary organizations, information was gleaned from literature on for-profit and public organizations. Some observations included here are, therefore, based on the assumption that the available information is relevant to Canadian nonprofit and voluntary organizations.

For strategic planning to effectively increase the capacity of a nonprofit organization, the various components of strategic planning (i.e., mission, strategies, budgets, and control) must be addressed thoroughly (Butler & Wilson, 1990; Ott, 2001). In recent years, change has been so rapid that organizations can succeed only if they can keep up with changes imposed by internal and external factors. An organization's ability to respond to change is often influenced by its ability to manage the acquisition and use of knowledge (National Performance Review, 1994). Despite evidence of progress in some organizations, available research seems to suggest that use of information technology and related management capacities by nonprofit and voluntary organizations is limited (Prairie Research Associates, 2001; Blau, 2001). The lack of human resources and adequate funding has, to some degree, constrained the ability of organizations to develop technological capacity (Corder, 2001; Stanback, 1987) and knowledge management capacity (Wolch & Rocha, 1993), or to initiate strategic change (Hannen & Freeman, 1984).

The literature suggests that stakeholder relationships create and determine the relationship capital of nonprofit and voluntary organizations (Panel on Accountability and Governance in the Voluntary Sector, 1998). Indeed, for an organization to be effective, it must be able to develop both internal and external relationships with its stakeholders (Patten, 2002; Phillips & Graham, 2000). However, role ambiguity and organizational culture have affected the functioning of nonprofit and voluntary organizations, leading to less than optimal stakeholder relations and organizational efficiency (Harvie, 2002).

Because governments are relying increasingly on nonprofit and voluntary organizations to deliver services, it has become important for these organizations to develop their policy capacity so that they can have some input into, or influence on, government policies relating to their areas of service or expertise (Kramer, 1994; Salamon, 1995). The funding relationship between government departments and voluntary organizations affects how organizations structure themselves, approach policymakers, and perceive their power (Laforest, 2002). A review of the literature on policy capacity suggests that most organizations do not have adequate funding to invest in policy-development infrastructure, nor do they have the necessary in-house expertise in government-relations activities (Belfall, 1995). Most organizations also find it difficult to meet policy goals because their research and information dissemination capabilities are inadequate, inefficient, or nonexistent (Belfall, 1995).

Nonprofit and voluntary organizations have attempted to improve their structural capacity by developing their internal infrastructure. Rather than cutting back on services, organizations have explored various ways of acquiring tangible goods and property, as well as expert knowledge, to build up their knowledge management and operational capacities (Reisman, 1991). However, the lack of resources for infrastructure is a challenge for nonprofit and voluntary organizations. Donors often require assurance of a solid infrastructure before they commit to supporting programs and services, but a solid infrastructure is often impossible without funding directed to infrastructure development (Gronbjerg, 1994).

Tables 3a to 3c summarize the literature relating to the structural capacity of nonprofit and voluntary organizations in Canada under three main headings. Table 3a deals with development and planning; Table 3b with stakeholder relationships and policy; and Table 3c with infrastructure.



**Table 3a. Summary of Structural Capacity Issues: Development and Planning**

STRATEGIC PLANNING

**External Factors**

**Increasing importance of strategic planning for organizational development and renewal**

Greater input sought by stakeholders with regard to identity, mission and strategy (Ott, 2001).<sup>\*</sup>

**Related Capacity Issues**

- *Organizations that have developed strategic plans* geared to organizational renewal and development focus on four effective adaptive strategies: pursuing strategic expansion; developing business management techniques; stepping up boundary-spanning activities; and, maintaining public service character through commercialization (Alexander, 2000).<sup>\*</sup>
- *Increased use of internal and external inputs:* board-staff partnerships and cooperation, community involvement, professional and technical skills, and planning and evaluation competencies to develop innovative strategies (Wolch & Rocha, 1993).<sup>‡</sup>
- *Organizational change has become important to organizational growth and development.* Change occurs principally as a result of one form of organization replacing another, rather than through radical restructuring of existing organizations (Hannen & Freeman, 1984).<sup>\*</sup>
- *Some organizations lack resources (human and financial) to develop planning processes* (Wolch & Rocha, 1993).<sup>‡</sup>
- *Some nonprofits may not have the capacity to strategize for change.* This is one of the most fundamental constraints limiting organizational renewal and development (Hannen & Freeman, 1984).<sup>\*</sup>

INFORMATION TECHNOLOGY AND MANAGEMENT SYSTEMS

**External Factors**

**Increased demand for establishment, enhancement, management and use of information**

Increased demands for program evaluation by donors to assess the value and effectiveness of programs (Paddock, 2001).<sup>§</sup>

Funders are not willing to provide adequate funding to enhance technology capacity (Corder, 2001;<sup>\*</sup> Stanback, 1987<sup>+</sup>).

**Related Capacity Issues**

- *Increased use of information technology.* Organizations connect clients and employees in new ways using information management strategies to go beyond organizational or geographic boundaries (National Performance Review, 1994).<sup>\*</sup>
- *Lack of technical support staff with knowledge and skills* (Prairie Research Associates, 2001;<sup>†</sup> TBC Research, 2001;<sup>‡</sup> Burt & Taylor, 1999<sup>+</sup>). Smaller organizations rely on volunteers to provide information technology support. Larger organizations mainly require paid expert staff or external consultants (Prairie Research Associates, 2000;<sup>†</sup> TBC Research, 2001<sup>‡</sup>).
- *Smaller voluntary organizations in rural areas have lower quality online access than those in urban areas* (Prairie Research Associates, 2001).<sup>†</sup>
- *Lack of resources to continually upgrade computer and Internet technology* (Prairie Research Associates, 2001).<sup>†</sup>
- *Lack of capacity to market Web sites* (Blau, 2001).<sup>\*</sup>

Note: <sup>†</sup> Canadian literature; <sup>\*</sup> American literature; <sup>‡</sup> British literature; <sup>§</sup> Theoretical/conceptual literature without specific country context.

**Table 3b. Summary of Structural Capacity Issues: Stakeholder Relationships and Policy**

POLICYMAKING

**External Factors**

**Related Capacity Issues**

**Changing policymaking environment**

Policy capacity has gained in importance because governments are increasingly relying upon voluntary organizations to provide services (Belfall, 1995).<sup>†</sup>

The legislative and regulatory regime governing charities is widely viewed as an impediment to the development and exercise of policy capacity. Confusion about the legal definitions of political activity and education may cause organizations to hesitate to develop their full policy potential (Drache & Boyle, 1998; Institute for Media, Policy & Civil Society, 2002).<sup>†</sup>

- *Limited resources for policy development.* Most organizations do not have the funding to invest in policy development infrastructure, nor do they have the necessary in-house expertise in government relations activities. While organizations tend to rank government relations as one of their highest priorities, only 60 percent of chief executive officers of national organizations were registered as lobbyists (Belfall, 1995).<sup>†</sup>
- *Small organizations often feel excluded from both voluntary sector and government policymaking circles* (Voluntary Sector Initiative, 2001).<sup>†</sup>
- *Influential organizations have personnel who are knowledgeable about policy development processes* (Dobrowolsky, 2001).<sup>†</sup>
- *An organization's policy effectiveness is enhanced by several organizational factors:* clearly defined objectives, a sound knowledge of the relevant government department(s), a long-term focus, and a respectful disposition toward government officials (Pross, 1992).<sup>§</sup> Organizations with a stable membership, a well-developed identity with a broadly defined purpose, a well-structured decision-making apparatus, and sufficient resources to maintain a professional staff, will be able to engage with policymakers on a more regular and sustained basis (Thorburn, 1985;<sup>†</sup> Pross 1992<sup>§</sup>).
- *Inter-organizational relations may influence an organization's policy capacity.* The tensions between local and national chapters and between boards and organization employees may hamper the ability to act collaboratively (Sontag, 2001).<sup>\*</sup>

**Limited resources available for policy development**

The move from core funding to project funding and contribution agreements have reduced the capacity of organizations to do research (Juillet et al., 2001).<sup>†</sup>

- *Diminished involvement in policy development.* Lack of research and knowledge about the voluntary sector hampers the ability of government and voluntary sector policy actors to develop effective policy options (Belfall 1995; Hall 2002).<sup>†</sup>
- *Inadequate research and dissemination infrastructure.* Most organizations may find it difficult to meet policy goals because their research and information dissemination capabilities are inadequate, inefficient or non-existent. Although credible and effective government relations activities rely on research capabilities, many organizations fail to recognize the value of in-house or shared research infrastructure (Belfall, 1995).<sup>†</sup>
- *Increased demands for policy engagement and research.* As organizations' roles in policy processes increase, the degree to which voluntary organizations have the capacity to design, conduct and analyze research has also increased (Belfall, 1995).<sup>†</sup>

Note: <sup>†</sup> Canadian literature; <sup>\*</sup> American literature; <sup>‡</sup> British literature; <sup>§</sup> Theoretical/conceptual literature without specific country context.



**Table 3b. Summary of Structural Capacity Issues: Stakeholder Relationships and Policy (continued)**

COLLABORATION AND PARTNERSHIPS

**External Factors**

**Related Capacity Issues**

**Increased demand for collaboration and partnerships**

Increased external pressures on organizations to collaborate with nonprofit organizations, governments or corporations (Panel on Accountability and Governance in the Voluntary Sector, 1998).<sup>†</sup>

Government concerns about the quality of policy input from the voluntary sector may hamper efforts to build collaborative relationships (Harvie, 2002).<sup>†</sup>

- *Increased use of collaboration among organizations.* Collaboration is adopted by nonprofit organizations in order to more efficiently provide services to new clients with different needs, contributing to policy, informing citizens of issues, and mobilizing action (Patten, 2002; Phillips & Graham, 2000).<sup>†</sup>
- *Increased reliance on ventures involving commercial activities.* Commercial partnerships and contracts have led some nonprofit organizations away from accomplishing their missions by opening up new areas of work (Saxon-Harrold & Heffron, 1999).<sup>\*</sup>

Note: <sup>†</sup> Canadian literature; <sup>\*</sup> American literature; <sup>‡</sup> British literature; <sup>§</sup> Theoretical/conceptual literature without specific country context.

**Table 3c. Summary of Structural Capacity Issues: Infrastructure**

**FUNDING**

**External Factors**

**Lack of funding for infrastructure development**

Funding agencies do not generally consider offering infrastructure development support (Husbands, McKechnie & Gagnon, 2000).<sup>†</sup>

**Related Capacity Issues**

- *Increased use of alternative strategies to enhance resources.* Bartering is one practice that has been shown to improve the internal infrastructure of organizations (Reisman, 1991).<sup>\*</sup>
- *Social service organizations are largely unable to secure funding to maintain and improve their facilities.* This deficit in organizational capacity is generally due to a lack of financial surplus or access to resources (Gronbjerg, 1994).<sup>\*</sup>

**Operating Systems**

Increased importance of operating systems (e.g., daily operations, administration systems and organizational culture) (Courtney, 2001).<sup>§</sup>

Demands for financial controls by funding and regulatory agencies have increased the importance of operating systems (Courtney, 2001).<sup>§</sup>

- *Some organizations have developed operating systems to maintain financial controls* (Courtney, 2001).<sup>§</sup>
- *Organizations tend to focus on one or two dimensions of capacity* (e.g., personnel). They tend not to address the impacts that potential changes will have on areas such as processes, infrastructure, and information (Bureau for Development Policy, 1998).<sup>§</sup>

Note: <sup>†</sup> Canadian literature; <sup>\*</sup> American literature; <sup>‡</sup> British literature; <sup>§</sup> Theoretical/conceptual literature without specific country context.

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## **APPENDIX D: SUMMARY OF THE FRENCH-LANGUAGE LITERATURE REVIEW**

Using the major capacity categories suggested for the literature review, the Quebec team produced a French-language bibliography useful for understanding associations in the francophone world. This research revealed a tradition very different from the one present in the anglophone world. For example, the political capacity of associations is a dominant theme in the French-language literature. In light of evident differences, the Quebec team deemed it useful to present a brief analysis based on a number of important French-language works and themes. We hope this analysis will serve as a useful bridge to comparative analysis of the two traditions.

### **Associations in Francophone Literature**<sup>1</sup>

An analysis of the literature surveyed here reveals an increasing interest, in Quebec and in several francophone countries, in associations and their place in society. In Quebec, this phenomenon is related to two events that brought to the fore the issue of the recognition, by public authorities and by society in general, of a third sector comprising associations, cooperatives and membership organizations. Initially, it was the 1995 Marche des femmes pour du pain et des roses [Women's March for Bread and Roses], calling for massive investments in social infrastructures (with reference to the federal government's Infrastructures Program), and the 1996 Sommet sur l'économie et l'emploi [Summit on the Economy and Employment] that acknowledged, at least in principle, the place of social economy in the development of Quebec society.

Francophone literature on associations<sup>2</sup>, and more generally on the third sector, is extremely abundant, rich and diverse. Here, we deal with several subjects that are at the heart not only of this literature, but also of the social debates currently underway on these issues in Quebec and in the main francophone European countries. We have grouped these subjects into five themes: definition and typologies; the large families of ideas found in academic literature; the association and democracy; the relationships to the State relating more specifically to recognition and financing; and, the place of associations and, more generally, of social economy in the emergence of a new development model.

Those five themes, which translate and assemble the main issues as they appear, in our opinion, in francophone literature, are not unrelated to the broad categories of the research and survey of the literature.

The theme of the definition, importance and typologies of associations falls into the so-called "general" category. The theme of the large families of ideas concerns both political capacity and structural capacity, but also the general category. The same holds true for that of the relationships linking the association and democracy, but the latter theme also deals with the issue of human resources. The theme of the relationships to the State regarding recognition and financing concerns both political capacity and financial capacity. Political capacity is also affected by the last theme dealing with the emergence of a new development model.

<sup>1</sup> By Louis Jolin, Benoît Lévesque and Yves Vaillancourt, with the cooperation of François Aubry and Richard Nicol.

<sup>2</sup> The expressions NPO (nonprofit organization) or NFPO (not-for-profit organization) are often found in the literature, especially that from Quebec, but we much prefer the term "association," which is much more legally accurate.

## **Definition, Importance and Typologies of Associations**

As indispensable means used in a socially and politically effective individual action, groups are at the heart of the most liberal societies; this is particularly true of interest groups (Dion, 1971). But there are more than just interest groups. To fully understand the complexity of the notion of group, one cannot hesitate to resort to various typologies, among which one finds the typology that emphasizes the group's degree of organization. The personified association (endowed with juridical personality) falls into this typology as constituting a formal, well-organized group (Dion, 1971).

Several definitions of the association have emerged, but are similar on fundamental points: voluntary grouping of individuals or groups, pooling of activities and knowledge, and pursuit of a goal other than profit sharing (Meister, 1972; Levasseur, 1990; Jolin, 1995). Some authors focus on the democratic process of the association (Levasseur, 1990), while others emphasize freedom of contract, which guarantees freedom of association (Jolin, 1995; Sousi and Mayaud, annual).

Community life has obviously developed in the last few years as a widespread phenomenon. The creation of associations in the fields that are traditionally matters for the State testifies to users taking back control over certain activities and also constitutes a reaction to the decline of the Welfare State (Langlois, 1990). Almost 50,000 associations have juridical personality in Quebec and there are almost as many without juridical personality (associations under the Civil Code that have not been personified), according to the data updated by the Inspector General of Financial Institutions of Quebec (Jolin, 1995). In France, there are an estimated 700,000 associations currently active, and approximately 70,000 are created per year (CIRIEC, 2000a). In total, the associations include a significant number of people who certainly may be members of several associations at the same time. In Belgium, associations count eight million members, which is significant for a country with a population of 10 million (CIRIEC, 2000a).

Almost all sectors of activity are affected by associations, which has given rise to various typologies (Langlois, 1990; Ministère de l'Emploi et de la Solidarité [Ministry of Employment and Solidarity] - France, 1998; CIRIEC, 2000a). These typologies include, in part, those of Lester Salamon. But other attempts at classification strive for more than simple description of the field of activities covered by the associations, in order to better explain their relationships to civil society and to political society. Roger Levasseur proposes a double typology in order to respect this double dynamic. Under the heading of civil society, he distinguishes two categories of associations, each one subdivided into two sub-categories: (1) associations geared towards individual promotion (expressive associations and interest associations); and, (2) associations geared towards collective promotion (community groups and social action groups). From the point of view of political society, relying on the research of Garrigou-Lagrange, Levasseur proposes a four-category classification based on the degree of autonomy of the associations compared with public authorities: (strictly) voluntary associations, partnership associations, mixed associations and "detached" associations (in the sense of detachment from the State through administrative associations) (Levasseur, 1990; Jolin, 1995).

Jolin (1995) recalls that Françoise Carroux advanced a typology that concurs with Levasseur's in recognizing expression and communication associations, and demand associations. However, this author also considers

a third type, the managerial association, which plays a central role in the social economy. Relying on the works of A.M. Rose, A. Meister (1972) also proposed several typologies, including the one that distinguishes the associations whose goals and activity aim to express or satisfy the particular interests of their members from those that propose to use their influence to provoke a change in their surroundings.

All of these attempts at typologies and nomenclatures are not sufficient to take into account the increasing complexity of the associative phenomenon. Meister's classifications do not take into account the services delivered by associations in pursuit of their activities. Multiple activities and various ways of inserting economic activity into the various purposes of the association are not sufficiently considered. This is the criticism of D. Demoustier and M.-L. Ramisse (1999), which leads them to research, rather, the "socio-economic profiles around which to determine the relationships of the association to its economic, political and social activities and to characterize its mode of operation."

### **The Large Families of Ideas**

In the francophone documentation, a large part of the literature on associations is related to the literature on the social economy, the economy of solidarity, and the third sector. Furthermore, relevant works on associations identified as community action groups may also be found in Quebec.

These connections lend a particular bent to the issues and debates on the associations in the francophone world and, more broadly, in the Latin world (e.g., Spain, Italy, Latin America) where the influence of social Catholicism has been historically strong. Thus, the issue common to this literature seems less that of being not-for-profit and of "demerchandization" than that of democratization, of self-help and of subsidiarity. Thus, the cooperative principle, "one person, one vote," seems to be the backbone not only of cooperatives, but also of associations, which, in principle, has the effect of giving the power to the assembly of members. On the other hand, as Danièle Demoustier (2000) demonstrates, the market poses less of a problem for these authors than competition as the exclusive regulating principle. One supposes that if the decisions were left to the people rather than to the shareholders, arbitration would enable the market to be domesticated. In other words, the market as such is not put at issue so much as the empowerment thereof through unlimited profit seeking.

Four or five approaches may be identified in the francophone literature (Lévesque & Ninacs, 1997). First, an approach by the legal status developed by Henri Desroche (1983) identifies three large components of the social economy: cooperatives, membership organizations, and associations, with, in the periphery, four so-called uncertain components, namely community enterprises, communal enterprises, union enterprises and employers' enterprises open to participation. Second, a systematic approach (Vienney, 1988 and 1994) counts on the fact that rules, actors and activities form systems, and considers the cooperative to be the hard core of the social economy. Third, an approach based on the values (Defourny, 1992) that are common to associations, cooperatives and membership organizations: democracy, solidarity and mutual aid, purpose and social utility, etc. Fourth, an approach by logics of action presents associations and cooperatives as resulting from compromise between various logics (Enjolras, 1993): domestic logic, civic logic, logic of inspiration, trade logic, etc.

Finally, a fifth approach may be identified, the so-called economy of solidarity logic, of which CRIDA [*Centre de recherche et d'information sur la démocratie et l'autonomie* – The Information and Research Centre on Democracy and Autonomy], headed by Jean-Louis Laville and Bernard Eme (1999), has made itself the promoter. Economy of solidarity here means mainly associations in the field of local services. Economy of solidarity has two basic characteristics: first, the joint construction of the supply of and demand for services by professionals and users; and, second, the hybridization of non-monetary (volunteerism), non-commercial (governmental redistribution and grants) and commercial (sales for self-financing) resources. Moreover, from a macro point of view, initiatives arising from the economy of solidarity fall within the framework of a reconfiguration of the forms of regulation such that one goes from the State-market couple to a ménage-à-trois: State-market-civil society. In France, the economy of solidarity also appears as a return to the sources of social economy as it emerged at the beginning of the 19th century, thereby very explicitly distancing itself from the former social economy that, in a way, would have betrayed its roots. In Quebec, the idea of economy of solidarity is used not in contrast with, but to complement, the notion of social economy in order to designate mainly the emergent social economy, but it may be suitable for all of the social economy, which is thus invited to take more seriously the values and principles that define it (Collectif, 1998).

The foregoing reveals that the third sector concept is hardly used, except by authors who draw their inspiration from the trend of nonprofit organizations (Archambault, 1991). As Vaillancourt (1999) demonstrated, this concept is not uninteresting, since it makes it possible to unite initiatives, particularly in the field of social development, and to show how they differ both from the private sector and the public (governmental) sector. The main disadvantage of the notion of a third sector, as defined in the international research of Johns Hopkins University, directed by Salamon, comes from the fact that the definition retained excludes the mainly trade initiatives, as is the case of certain cooperatives in the health and social services field. In spite of those disadvantages, taking into account the third sector makes it possible to establish links and debates between research studies and practices that give priority to this concept, and those that give priority to the concepts of social economy and economy of solidarity.

Finally, the literature on community action, which has been flourishing in Quebec since 1995, reveals various interpretations, particularly on whether or not it belongs to the social economy, and whether or not it is open to partnership, the defence of rights, and the production of services.

### **The Association as an Expression of Participatory and Representative Democracy**

Although some authors feel that participation in associations is less a supplement to democracy than a substitute (Godbout, 1983), others believe that associations are connected with the ever-incomplete construction of democracy (Berthet, Le Proux, Rebérioux, Laville, Rolin & Ramage, 1995). In this sense, a considerable number of citizens there learn everyday that the freedom to act and equality are not final achievements (Rebelle & Swialty, 1999).

Associations are strongly relied upon to lead and keep in motion action and collective reflection on the development of democratic values, whereas Gendreau believes that the issues are undoubtedly too important



to entrust the considerable underlying responsibility to NPOs (associations) alone. Moreover, does the third sector have “the moral legitimacy to denounce, encourage, act and spark change” (Gendre, 2000)? In view of the coming to power of individualism and the new powers of domination (Afchain, 1997), their political role is evident although limited, as Caillé and Laville emphasize in the introduction to an edition of the *Revue du MAUSS* dedicated to the association (bi-annual *Revue du MAUSS*, 1998) [*MAUSS – Mouvement anti-utilitariste dans les sciences-sociales – Anti-utilitarian movement in the social sciences*].

In this sense, beyond the necessary spectacular demand, Caillé and Laville believe that it remains up to associations to transcend the political field and develop new modes of sociality. One alternative progressive scenario foreseen is taking the risk of contributing to the emergence of a new social contract, a third voice between the neo-liberal scenario and the statist social scenario (bi-annual *Revue du MAUSS*, 1998).

That comment concurs with that of Lévesque, who feels that “in any case, the initiatives must be built on a plural economy based on variable dosages between the commercial, the non-commercial and the non-monetary” (Lévesque, 2001). The impact of NPOs (associations) on changes in government policies is barely documented, but nevertheless real (Larose, 2000). Although they do not have the resources to put much effort into research and development, NPOs (associations) can count on a network of bodies, for support and solidarity, that alters the relationship between civil society and the State through the governance model adopted (Lévesque & Mendell, 1999).

The Alliance de recherche universités-communautés en économie sociale [University-community research alliance on social economics] is an original infrastructure of the partnership for research, training, distribution and exchange of knowledge in the social economy (Van Schendel, Lévesque, Neamtan & Vallée, 2000).

### **Associative Governance and Internal Democracy**

In a democratic society, the association is deemed to be a citizen school. “What one must remember about them is that there is a special bond between association and democracy” (Godbout & Caillé, 1992). What is the impact of governance, of management on internal democratic life?

The relationships between its members are varied and complex, similar and distinct from one association to another. These are relationships of more or less voluntary participation (Meister, 1972), more or less confrontational power relationships and tensions that affect control over the organization, of its directions and of its practices (Mayaux, 1999). What are the values conveyed behind these relationships, the values that provoke these movements? Are they intrinsic to democratic life? Are they due to the decline of democratic life?

The adoption of internal government rules and the election of directors are the first democratic actions that clearly illustrate permanent arbitration. Then, a relationship is established between the volunteer directors and the other members. In this context, the type of board of directors retained will have a major impact on the democratic game and everyone’s position (Mayaux, 1999). The motivations of the directors (Malenfant, 1993) and of the volunteers (Mayaux, 1998) are then determinative. Is the volunteer militant or does he/she

identify with elitism (Blanchet, 1990)? For some, joining an association is first and foremost giving of oneself and one's time (Godbout & Caillé, 1992). Will the time dedicated by a chairman be acknowledged, appreciated, and rewarded (Franssen, 1999)? Initially, volunteerism was mutual aid and philanthropy (Blanchet, 1990). In the beginning, before it became institutionalized and professionalized, the labour movement was based on a principle of mutual aid and on the unrelenting devotion of volunteer militants (Langlois, 1990). It was and is still a search for meaning, armed with an ethic of social commitment (Lamoureux, 1996).

But the relationships between the volunteer and permanent (employee) members are indisputably the most complex. Hiring of staff is an important time in the life of an association. The situation is complicated by an increase in the number of employees and the recruitment of a manager (Mayaux, 1998). The board of directors then delegates part of its prerogatives to the manager, who represents it and directs its project. The types of employer-volunteer-employee relationships are multiplying and diversifying (Mayaux, 1998). The financial issue also exacerbates these relationships, as does the arrival of a union (Blanchet, 1990). What is a volunteer's time worth? Why is someone else being remunerated while he/she is doing similar tasks on a volunteer basis? Are volunteers looking for a job? Do volunteers work for free (Godbout & Caillé, 1992)? Must they sign a contract (Rebelle & Swialty 1999)?

Desroche (1983) developed an extremely interesting organizational analysis model that clearly illustrates the various situations of potential conflict. The more revenue the organization generates, the greater the risk of a tightening up of administrative transparency becomes, the more the board of directors entrenches itself and the more democratic life suffers (Mayaux, 1998). With the striking advance of social economy, does one not note the decline of democratic life, brought on by more and more wheeler-dealer management (Berthet, Le Proux, Rebérioux, Laville, Rolin & Ramage, 1995)? Does one not often hear it said that the general assembly is not sovereign, that the board of directors holds power?

## **The Legal Challenge**

How does one legally translate the associative project? Some countries, such as France, wanted first and foremost to affirm a civil liberty, the freedom of association. As a result, the law of 1901 is characterized by considerable flexibility in relation to the establishment and internal organization of associations imbued with juridical personality. Freedom of contract guarantees the freedom of association itself (Sousi & Mayaud, annual). Other countries, including Canada, were more concerned with the protection of third parties, and the associative right was an exceptional right of companies (of companies with share capital) and contains, in contrast with French law, more onerous mandatory provisions. It is the law (the Canada Corporations Act; in Quebec, Part III of the Companies Act) that confers upon the board of directors the bulk of its powers and restricts the powers of the members (Jolin, 1995, Martel & LeBel, 1994).

Several legal debates have occurred over the past few years in order to justly increase the democratic nature of associations (Jolin & LeBel, 2001), to tighten up the controls, particularly of associations that do public fundraising (Hoang & Cusson, 1991), and to allow associations to increase their capitalization and more easily obtain financing from the private sector (Castro & Alix, 1990; Jolin, 1995). This is without counting

the numerous discussions regarding the fiscal advantages to be granted to associations in Canada and in European countries (Alfandari & Dutheil, 2000; Martel, 1994; Jolin & LeBel, 2001).

Social economy enterprises have mainly cooperative status or associative status. Are these two statuses sufficient? Must associative law evolve to the point of giving rise to a new type of legal entity, or at least to a common label in the socio-economy of solidarity for companies with social purposes (Lipietz, 2001)? Must the associative status be preserved instead, no matter what the cost, while modernizing it to better adapt it to the challenges presented by the exercise of democracy and the operation of a company, as well as to the various categories of associations?

### **The Recognition and Financing of Associations and Their Relationships to the State**

Some studies on associations and social economy (Jetté, Lévesque, Mager & Vaillancourt, 2000) have revealed a significant increase in publications in Quebec since the mid-1990s. All in all, although social economy has in fact existed for over a century, the expressions “social economy,” “economy of solidarity” and “socio-economy of solidarity” have only appeared in the literature and public debate in a striking way since the 1995 *Marche des femmes pour du pain et des roses* [Women’s March for Bread and Roses], and the 1996 *Sommet sur l’économie et l’emploi* [Summit on the Economy and Employment], which was convened by the government of Quebec.

In order to grasp the meaning of the transition that occurred around 1996, one must recall that it was from that time that the Quebec government was forced to acknowledge the social economy and to make concrete commitments to financially support it in new areas. It must also be understood that political recognition of the social economy by the public authorities was in some way a response to the urgent demands of the social movements (feminist, union, community, ecological, etc.) and of the actors on the ground of the social economy that had been formulated in the previous years. The uniqueness of the social economy in Quebec, in comparison to what it represents in the rest of Canada and North America, comes from the fact that it concerns both civil society and public authorities (Collectif, 1998; Lévesque & Mendell, 1999; Vaillancourt & Favreau, 2001).

The recognition of associations and of the social economy in Quebec marks the transition from a period of experimentation to one of institutionalization. At the experimentation stage, social economy practices may crop up and develop in such-and-such a local area or such-and-such a specific sector because of the initiatives of the actors on the ground. For example, in the early 1990s, in the field of homecare, there were half a dozen associations that dispensed domestic help services to the elderly in Quebec. However, with the recognition and institutionalization of these activities, the public authorities adopted policies that made it possible to generalize the formula over all of the regions by financially supporting this sector and by setting a certain number of rules and standards with which local promoters must comply. This is how, the day after the 1996 *Sommet sur l’économie et l’emploi* [Summit on the Economy and Employment], the government of Quebec adopted a policy for financing domestic help services, which prompted 103 social economy enterprises in domestic help to open throughout Quebec, thereby creating over 5,000 jobs. Analogous

examples could be cited in other areas, such as local development (the emergence of local development centres), the school-to-work transition of youth (youth-employment centres), babysitting services (early childhood centres), the environment (waste-sorting and recovery centres), and culture (“cultural days”).

The issues related to the recognition of associations are closely connected to those having to do with the financing thereof. The literature on the financing of associations in the francophone world, and in Quebec in particular, reveals the existence of various financing methods to which a number of associations may have recourse simultaneously. The best-known financing methods are the sale of goods and services (commercial activities), fundraising campaigns, donations and grants from philanthropic organizations and foundations, loans from various investment funds, and financial aid from the State and various public authorities. The latter type of governmental financial support may take the form of tax advantages, contracts, grants, etc.

The literature that we have surveyed testifies to an interest in the research for this diversity of financing methods and often refers to what some call, due to Jean-Louis Laville (1992, 1994), the hybridization of financing methods (Lévesque, Bourque & Forgues, 2001).

Several works on the recognition and financing of the third sector’s activities, particularly the works on the relationships between the State and associations, deal with the issue of the impact of the governmental financing method on the autonomy of associations. This issue is present in numerous publications that, from 1995 to 2002, deal with the issue of the recognition and financing of independent community organizations (Larose, 2000). This has been a central issue in the health and social services field since the mid-1980s, as witnessed by the matter on the connection between the community and public sectors that appeared in the journal *Nouvelles pratiques sociales* [New Social Practices] (vol. 7, no. 1) in the spring of 1994. This issue raises several questions: must community organizations that are mainly or completely financed by the State remain confined in the delivery of services? Does governmental financing allow the associations concerned to escape from a “utilitarian” or “instrumentalizing” relationship? What types of rendering of accounts that go hand in hand with the use of public funds remain compatible with respect to the associations’ autonomy?

Multiple answers were brought to these questions by the public debate and research, as witnessed by the literature. Vaillancourt and Laville (1998) and the Larose Report (2000) are in a register related to the one found in the writings of Jane Lewis and Marilyn Taylor in the United Kingdom. The relationships between the State and associations arise, from the financial and political points of view, either from sub-contracting and instrumentalization, or from partnership. In the fullest sense of the partnership relationship, associations that have recognition and financial support from the State are not necessarily confined to a role of passive execution. They have a say in the rules of the game that affect them. They are not merely confined to the delivery of services. They may also contribute to the development of citizenship, assuming a role in the promotion and defence of rights.

## **A New Development Model**

For associations, as for social economy and the third sector, reference to the development model invites us to go beyond the micro point of view (that of organizations taken one by one) to adopt a macro point of

view, namely the relationship to the State, to social and economic regulations, and to the consumption and production system. From this angle, several publications raise concerns over the fact that recourse to associations, to social economy and, more generally, to civil society may contribute to destabilizing the welfare state and to eroding certain existing benefits. However, approaches inspired by the socio-economy of solidarity, while admitting the existence of the aforementioned danger, instead highlight two possible visions of social economy and of associations (Lévesque & Mendell, 1999; Vaillancourt & Tremblay, 2001).

The first scenario, often characterized as neo-liberal, would make associations and social economy available only to the poor. The services offered would be low-end in a context of promotion of market self-regulation. In this scenario, the associative actors of the social economy and the volunteer practices arising from home economics are simply instrumentalized by the State and the market. Thus, the principles of donation and reciprocity are reclaimed and subjugated to the principles of redistribution and competition, rather than symmetrically cohabiting with them.

In a second scenario, characterized by several authors as democratic and showing solidarity, associations and social economy would meet not only needs (necessity), but also unsatisfied aspirations. In the last case, social economy, the third sector, and associations fall under a plural economy and may contribute to the reconfiguration of the State just as well as consumption and production systems.

Indeed, the most macro analyses tend to demonstrate that the new social economy, the one that has emerged since the end of the 1970s, responds to a double crisis: that of employment and that of “providentialism” (Bélanger & Lévesque, 1991; Jetté et al., 2000; Vaillancourt & Tremblay, 2001). In such a context, social economy becomes a support, among other things, to transform the fordist and dualist (state and market) development model inherited by some developed capitalist countries in the post-war era. In Quebec, this model appeared due to the Quiet Revolution that had its golden age during the 1960s and 1970s. In the economic and social development model which could emerge and which has in fact begun to emerge in Quebec and other societies thanks to the contribution of the socio-economy of solidarity, the recognition and consolidation of associations may contribute to the emergence of a new division of responsibilities between civil society, the State and the market. This represents opportunities to collectivize the market and democratize the State and public institutions. In this model, the regulatory functions of the State and of public authorities remain considerable. However, the government intervention method becomes less hierarchical and centralizing, or, in other words, more akin to partnership (Vaillancourt, 2002).



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