

Chapter 7: Nonprofit and Voluntary Organizations under Stress

At the beginning of this report, we indicated how little was known about the nonprofit and voluntary sector in Canada. If this study serves no other purpose, it has at least added to the growing cache of knowledge about this sector at the beginning of the 21st century. The irony is that we are gaining greater understanding of the contributions of the sector and the challenges it faces, at a time when nonprofit and voluntary organizations are warning that their capacity and essential character are at risk.

There is another key confluence of time and circumstance. Society today is increasingly looking to the nonprofit and voluntary sector to serve and represent the public, even as the ways and means of supporting these organizations in their various roles – delivering services, connecting communities, speaking for the vulnerable, and building social capital – are becoming less stable.

The organizations which participated in this study showed that the nonprofit and voluntary sector is tremendously resilient and energetic at the level of individual organizations. Faced with unprecedented financial pressures and volatility, organizations are actively trying to manage their funding pressures and foster greater self-sufficiency in numerous and creative ways. That being said, however, by sharing their financial and organizational struggles and successes for this study, they have provided an overview, at a sector-wide level, that is disquieting.

Funding Matters

The purpose of this study was to explore the impact of funding sources and mechanisms on the financial capacity and long-term sustainability of nonprofit and voluntary sector organizations. Overwhelmingly, study participants affirmed that a stable, preferably independent, financial base is essential for their organizations' current capacity and future sustainability. The problem is that most of our respondents do not have – or no longer have – such a base.

Participants also pointed to other factors that help sustain healthy organizations, including: “Strong, committed staff supported by an energetic working volunteer base” (#38); “un excellent leadership et une bonne gestion” (#48); “l’aptitude a comprendre et a définir la position unique d’un organisme et son rôle dans la communauté” (#28); “a solid reputation for integrity and competence” (#10); “the capacity to take risks and innovate” (#51); and “the courage to take positions on issues that you believe are right” (#25).

While funding is not the only thing that matters when it comes to organizational capacity and sustainability, it matters a lot. More specifically, the funding source matters, the funding mix matters, and the funding vehicle or mechanism matters. Raising funds has always been a challenge, but there is now more uncertainty and instability in the funding environment, related in large measure to the erosion of sources of core organizational support and the rise in project-based funding from both public and private funders. Nonprofit and voluntary organizations now operate under intense financial pressures and they face significant operational challenges, the consequences of which are influencing their direction and challenging their legitimacy.

“Whatever Gets the Money”

The emerging funding regime is calling into question how nonprofit and voluntary organizations define their mission and programs, how they structure themselves, and generate the resources necessary to sustain their activities. Many worry that organizations are being driven to take on programs or activities that dilute their missions, stretch their resources and erode their base of legitimacy. Mission drift – or “mission yank,” as one study participant called it – is a serious concern.

Focus group participants were candid about their struggle to stay true to mission in this funding context. “We have opportunistically applied for funding without understanding the relevant implications for our mission” (#1). “It is difficult to maintain a shared vision when you are dealing with day-to-day crises” (#32). One telling comment was: “We are left applying for small pots of money to offer a program to a certain population. You tend to develop whatever gets the money attitude, which is very sad” (#37).

Frustrations related to funding pressures were palpable. Overall, there was a feeling among the organizations surveyed and among the study participants that nonprofit and voluntary organizations were turning themselves inside out to secure funding for their organizations. There was generally a feeling that organizations were working “within mission,” that is, pursuing projects and activities germane to their overarching goals and aspirations. At the same time, fully one-third of organizations surveyed (32.7%) stated that they had experienced mission drift within their organizations (N=49).

This is not to say that the organizations participating in this study have deliberately set out to dilute their mission or focus. Rather, for many organizations, “mission vagueness” – as Burton Weisbrod has described it (Weisbrod, 1998) – and organizational change appear to be important strategies for diversifying their resource base and achieving long-term sustainability. One group put it this way: “Our mission has been pretty focused for 24 years. And it is broad enough to allow for a variety of activities and programs” (#3).

Organizational change such as income diversification and “mission vagueness” could be seen as a sign of organizational adaptability and health, as groups branch out into new activities, establish endowment funds, redefine membership, and increase fees, for example. Within this context, Luc Juillet and his colleagues argue that mission vagueness is rightly viewed as “a tool of resilience” and not as a “passive reaction to external change” (Juillet et. al., 2001: 42).

But there is an inherent danger that mission vagueness and other funding-driven change is providing cover for any activity that might generate revenue – in effect, confusing the means and ends within a given organization. Chasing project dollars or launching a commercial enterprise, for example, can significantly stress an organization and its staff. Mission drift under the guise of income generation can also undermine organizational autonomy and decision-making. Many examples were raised throughout our study of how funders were influencing program content through the extension of greater controls. Increased targeting of funding by public and private funders is similarly working to erode organizational responsiveness to community needs.

Further to this point, mission drift can threaten the connection between a nonprofit and voluntary organization and its members. An organization's legitimacy hinges not only on its ability to provide a continuing stream of activities and outputs efficiently and effectively, it is also determined by the degree to which the organization and its work are valued by its stakeholders. Organizations that drift away from their mission run the risk of eroding their base of legitimacy and credibility. It is this web of relationships between an organization and its stakeholders that enables and sustains it over the long term.

Blurring of Traditional Boundaries

In many fundamental ways, the traditional roles of the public, private and nonprofit and voluntary sectors are being altered, and the boundaries between them are blurring.

Specifically, governments have shed many of their long-standing service roles and replaced direct provision of services with contracting out, notably with the nonprofit and voluntary sector. At the same time, private sector firms have begun to enter "markets" once occupied almost exclusively by nonprofit and voluntary organizations, and they are increasingly marketing their products through identification with causes and organizations in the nonprofit and voluntary sector. In response to these pressures from both public and private funders, nonprofit and voluntary organizations have had to become more "businesslike," not only in their pursuit of earned income opportunities, but in their governance and management practices as well.

Josephine Rekart (1993, 1997), Paul Leduc Browne (1996), and John Shields and Mitchell Evans (2000) have written about the significant consequences of government contracting with the nonprofit and voluntary sector. As nonprofit and voluntary organizations – and social services, in particular – have become increasingly entwined with government funders through new contracting mechanisms, the extent of funder involvement in service has intensified and the threat to their independence has grown. These authors argue that over time, the boundary between government and nonprofit and voluntary organizations has been eroding, as organizations are transformed into a service arm of the state, a process which Forder and Knapp describe as "coercive isomorphism" (Forder and Knapp, 1993; cited in Leat, 1995: 173).

Some argue that the threat to the character and autonomy of nonprofit and voluntary organizations is exaggerated, that the relationship between governments and contracting organizations is better described as an interdependency (Kramer, 1990). Yet evidence from this study would suggest that funders – and public funders, in particular – have increased their control over the day-to-day operations of nonprofit and voluntary organizations of all types.

Organizations involved in contractual relationships with government funders report being under pressure to become more like their funders: large-scale, bureaucratic, professional organizations committed to service provision. Any endeavour not directly related to a program or project – including advocacy and community outreach activities – is effectively discouraged. It is only organizations with the ability to

attract or generate funds from other sources that are really in a position to resist these pressures from public funders.

Nonprofit and voluntary organizations are similarly being pressured by market forces through the imposition of new management and governance models, and increasingly in some sectors, through direct competition with for-profit service providers. Successful organizations in a competitive funding environment are likely to grow to resemble the for-profit or commercial organizations with which they are forced to compete. “When non-profit and for-profit firms operate in the same environment, producing the same services and competing for the same customers,” Frances Woolley writes, “they will tend to produce similar quality goods and services” (Woolley, 2001: 2). In particular, increased competition creates pressure towards increased size, economies of scale, professional management, organizational sophistication, and the ability to access capital to expand services.

It is a sign of the times that much of the pressure to adopt a market model of organization, governance and service provision is coming from public funders as well as from foundations and United Ways/Centraides. Governments and other funders turn to the nonprofit and voluntary sector because they are effective, responsive and invariably cost-effective. At the same time, funders are seeking to insert nonprofit and voluntary organizations into the market, structuring funding arrangements and fostering intense competition for resources that undermines the unique and valuable contributions of the sector: its “strongly idealism-based ethos which places highest priority on responding to need or producing social good, and doing so via indigenous, cooperative, mostly layperson- or community-based action” (Reed and Howe, 1998: 52). The contradiction between the stated aim of funders and donors to support the valuable work of nonprofit and voluntary organizations and the ways in which this support is currently structured and delivered is contributing to the global climate of uncertainty and volatility within the sector.

The Growing Divide

Even the diversity of the sector – a characteristic considered to be one of its great strengths – may be eroding. There is still a healthy mix of different kinds and sizes of organizations operating in different subsectors from sports to immigration services. But our study indicates that within the context of increased competition for resources and the dominance of a project-based funding regime, a divide within and across the sector is opening up. A gulf is widening between the larger organizations, with their professional staff and strong administrative capacities that can ride the funding roller-coaster, and smaller organizations with less infrastructure that are more likely to fall off. There is also a growing division between service delivery organizations and those which are primarily concerned with advocacy, and which are now less likely to get on the funding track at all.

It is perhaps not surprising that the new funding regime tends to favour larger, professional service organizations. These are the groups that are able to identify, develop and secure project funding, create stable donor bases, and successfully compete for market share. Because larger organizations can achieve economies of scale, they are more likely to have the infrastructure necessary to administer and

account for project funding or operate a commercial venture, particularly within a funding environment where little money is available to cover these types of costs.

Moreover, larger organizations are more likely to have an established financial base with reserves, a secure donor or membership base, and/or an endowment fund, and they are more likely to have access to commercial credit. Similarly, those with multiple service programs and income streams are best able to weather the financial ups and downs associated with project funding at this juncture. They are in a position to front the funds for project start-up when contracts and payments are delayed. The presence of many types and sources of funding also creates the opportunity for cross-subsidization within the organization, thus the possibility of generating or identifying funds for core activities such as governance, human resources, community outreach and the like.

Success begets success. Within this environment, smaller or medium-sized organizations are at a significant disadvantage in the competition for donations, sponsorships and program or service contracts. Among those participating in our study, groups serving rural communities and those representing marginalized or economically vulnerable groups spoke about the significant challenges they are experiencing trying to generate financial resources and deliver programming under the new funding regime. Similarly, newer organizations are having a difficult time establishing themselves, particularly if they are not able to acquire charitable status for the purposes of fundraising. Environmental organizations and those serving ethnocultural and ethnoracial communities have had trouble in this regard.

The other divide evident in the nonprofit and voluntary sector is the division between organizations primarily involved in service delivery and those engaged in advocacy on behalf of their members and constituents. Overall, there has been a shift in focus and dollars towards what are perceived to be “neutral” service providers, as governments have moved to contract out public services and reduce traditional support for groups committed to social justice and equity, particularly those representing the socially disadvantaged. These shifts in funding have taken place against a backdrop of greater scrutiny of interest groups and charities generally and specific steps by Canada Customs and Revenue Agency to more strictly interpret the law and regulations governing charities. An atmosphere of “advocacy chill” was identified by many organizations in our focus groups, where organizations in all sectors have been challenged to curtail representational activities central to their role and mission.

What Does it Matter?

What does it matter if some nonprofit and voluntary sector organizations are drifting away from their mission in order to keep themselves afloat? What does it matter if some sectoral roles are abandoned, or are subsumed by the private market? Who cares if some organizations can't cut it in the new funding world?

It depends. It depends on whether Canadians care about losing the contributions that nonprofit and voluntary sector organizations make to life in this country. Those contributions are different from those of the private sector and government, and generally not well understood. Nonprofit and voluntary

organizations are not only effective and responsive service providers, they are advocates, representatives and community-builders.

The pressures for change are large, and the challenges of managing those pressures even larger. Organizations that appear to be best positioned to survive this period of transition – those with the service capacity, economies of scale, revenue flows and professional management – may flourish. But many other nonprofit and voluntary organizations – those rooted in communities and civic values, carrying out vital community work – may not survive, at least not in their current form.

If some of these organizations survive, but are pushed through competition and project-based contracting into becoming more like for-profit providers, they will likely lose those features that made them what they are. In the United States, where the forces of commercialization are more pronounced, William Ryan found that some nonprofit organizations have actually converted to for-profit status in order to raise capital to compete for social service contracts. In his opinion, the threat is not that nonprofits will be driven out of the social service marketplace, but that in their struggle to compete, nonprofit groups “will be forced to compromise the very assets that [make] them so vital to society in the first place” (Ryan, 1999: 128). Within the Canadian sector, there are fears that organizations in competition for donations, grants, contracts and sales are being forced “to market themselves and their social contribution in business terms and adopt modes of operation that could be ill-adapted to their community roots” (Juillet et. al., 2001:26) and the needs of their beneficiaries.

It is precisely those “community roots” that are among the sector’s major assets and they are part of what makes the nonprofit and voluntary sector unique. If the scramble for funding and increased control by public and private funders erodes those essential linkages between nonprofit and voluntary organizations and their communities and the people they serve, the service may become disconnected from the needs, and the capacity of communities to help themselves may be diminished.

Nonprofit and voluntary organizations are also advocates, representatives and community-builders. The sector serves as a venue of active citizenship, fostering and sustaining connections among citizens and communities and governments. As advocacy activities by nonprofit and voluntary organizations – particularly those undertaken on behalf of historically disadvantaged communities – have been marginalized, fewer voices can be heard contributing to the debate on the defining issues of our time.

Nonprofit and voluntary organizations facilitate and enhance the functioning of democracy in a number of ways. “They provide information to policy makers; they redress political inequities that exist when politics is materially based; they can act as schools of democracy; they provide alternative governance to markets and public hierarchies that permits society to realize the important benefits of cooperation among citizens” (Cohen and Rogers, 1995 cited in Turner, 2001: 201). If the nonprofit and voluntary sector is weakened, Canadians’ opportunities for social participation, for democratic involvement, and thus, for active citizenship, will be eroded.

Writers such as Robert Putnam emphasize the role of nonprofit and voluntary organizations as community-builders engaged in the reproduction of social capital (Putnam, 1993). The presence and

healthy functioning of nonprofit and voluntary organizations serves to forge social networks within and between communities of interest that, on the one hand, enhance the lives of individual citizens, and on the other, underpin effective democratic political systems and strong economies. Pressures to become lean and mean can – and do – undermine the ability of nonprofit and voluntary organizations to serve as vehicles for citizen engagement and community building. Already we are seeing organizations pitted against one another in the competition for funds.

Much is at stake in this new world. Those unable to represent their interests, much less secure economic and social goods, may be sacrificed as we toy with forms of direct representation. It is not hard to imagine that the polarization so evident in economic and social life in Canada will come to characterize political life as well. As nonprofit and voluntary groups are transformed or sidelined, “the loss of the public spiritedness and the public goods that have traditionally characterized the activities [of the nonprofit and voluntary sector] is in danger of going unnoticed” (Alexander, Nank and Stivers, 1999: 463).

The threat of loss has not gone unnoticed within the sector itself. Nonprofit and voluntary organizations are struggling with financial uncertainty and volatility resulting from Canada’s new funding regime, albeit to different extents. Yet in one way or another, they are united in their desire to define a new path, to chart a new course in pursuit of their mission and connection to community. In this process, nonprofit and voluntary organizations walk a fine line between “creative tension” leading to innovation and “chronic stress” leading to stagnation or even organizational failure.

We know that many representatives of nonprofit and voluntary sector organizations who took the time to meet with us and provide information about their financial capacity are hoping that this report will generate constructive discussion and ultimately, beneficial change. The sector is not looking for a free ride. For example, it does not expect, nor does it want to be, unaccountable to funders. On the contrary, it seeks recognition for its multiple accountabilities, not only to funders, but to clients, partners, its volunteers, and its communities. The intention is not to resist all change in funding mechanisms. Many, if not most, of the organizations with whom we spoke have embraced change and have worked to become more effective.

As this study documents, the challenge is to achieve a balance between what all organizations need – stable, reasonably predictable and adequate funding that covers the costs of the operation – and what all funders need – assurances that money is being well spent on mutually agreed upon purposes by vibrant and relevant organizations.

The nonprofit and voluntary sector has rightly been characterized as the third pillar of our society, alongside government and the private sector. This pillar is showing some serious cracks, and our study suggests that action needs to be taken by public and private funders, in concert with the nonprofit and voluntary sector, to ensure that those cracks do not become major fractures. The people working and volunteering in the sector continue to show great commitment and creativity. And many of the funding trends that have been identified were not intended to cause harm – the motives were positive. There is a

real and timely opportunity to modify funding strategies and reverse some of those unintended consequences.

If nothing is done, the sector will continue to suffer from increasing instability, and for a significant cross-section of organizations, their capacity to achieve their mission and serve their clients and communities will continue to erode. In the end, all Canadians will be the losers.