

# THE J.W. MCCONNELL FAMILY FOUNDATION

## **The Health of the Non-Profit Sector – Is this Sector at Risk?**

**Address by**

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**To the Association of Family Serving Agencies**

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### ***Background: the scale of the voluntary sector in Canada***

The important role of the charitable sector is Canada's secret. We have proportionately the second largest sector in the world, after Holland. It employs 1.5 million paid workers (almost as many as the *entire* manufacturing sector and two and a half times the number of workers in the construction industry). It contributes 8.5 percent of Canada's GDP (4 percent if you exclude hospitals, universities and colleges) – this is more than the retail industry, mining, oil and gas *together*. In recent years it has also been the fastest growing sector of the Canadian economy.

So, the voluntary sector is large, it is important. But is it healthy? Let's look at three indicators: its financial situation; human resources, and leadership.

### **1. *Financial health***

Excluding hospitals and colleges and universities, the sector receives some \$75 billion a year. This large number varies greatly by sector of activity and size of organization. For example, the 1 percent of organizations with revenues over \$10 m. receives 60 percent of *all* revenue.

The most important revenue source is government grants and contributions. Although we think of the voluntary sector as primarily supported by charitable donations this is not the case. Excluding hospitals, colleges and universities, 40 percent of revenues come from government (mostly – 24% - provincial); 48 percent comes from self-generated income (goods & services, membership fees, etc); and 12 percent from donors, mainly individual.

Three-quarters of organizations report their revenues to be stable or increasing. However this masks some underlying concerns – 1) government grants and contracts are more difficult to obtain, often have onerous conditions attached, and increasingly are tied to specific projects and exclude 'core' costs; 2) the demand for services from communities or client groups is increasing as other services are reduced, so

organizations are facing shortfalls even if their overall revenue is stable; and 3) the average size of donations is increasing but the number of donors is declining. (for the period 2000-2005, average individual received donations have gone from under \$1000 to almost \$1400, but the number claiming has dropped by several percentage points).

The increasing number of large gifts – in some cases very large gifts – is of course welcome. It can, however, mask a more worrying underlying trend, and not surprisingly these large gifts tend to be drawn to institutional campaigns run by universities and hospitals or showcase arts projects. Large donations, like government grants, can also be narrowly tied to projects. The result is that over time there has been chronic underinvestment in core costs of organizations.

## **2. People**

Not all ‘voluntary’ organizations are volunteer-driven but volunteers are the life-blood of the sector. It is the fact that support for NFP organizations is *voluntary* – whether in the form of cash or time – that distinguishes it from government and commerce, where relationships are based on obligation or market transactions. So in a real sense the sector’s capacity to attract and retain volunteers, whether as Board members, service providers, or donors, is a critical gauge of its overall health.

Even without hospitals, universities and colleges the sector has 1 million FTE paid employees and a further 525 thousand FTE volunteers. This represents almost 10 percent of Canada’s economically active population.

Many organizations however report difficulty retaining or attracting new staff, given the lack of job security, limited opportunities for advancement within organizations and lower compensation. In a competitive job market these are reasons for concern. Furthermore while the number of volunteers is impressive, it is drawn from a narrow segment of the population since only 11 percent of Canadians account for 77 percent of volunteer hours. Not surprisingly most of this effort tends to be in organizations delivering services (75 percent), with a quarter devoted to what StatsCan calls “expressive” activities – causes, advocacy, etc.

We find here a growing difficulty recruiting volunteers and Board members. Smaller organizations are particularly hard hit, since almost three-quarters of all volunteers are engaged by the 6 percent of largest organizations. This is due to many factors no doubt: an aging population, time pressures, an increasingly transient lifestyle, less socialization into volunteering through church attendance and parental example, etc.

## **3. Leadership**

It is trite to note that the voluntary sector – like most of Canadian society – is graying. A whole age cohort, the boomers, is on the cusp of retirement and its replacement is hard to find. Many organizations do not have the depth of staffing or the resources to

systematically groom the successors to present leaders. Meantime there is fierce competition with other sectors of society to attract new leaders – and moreover to attract people when the conditions they can offer are markedly inferior, in terms of job security, compensation and the complexity of the challenges. There are no overall studies of the dimensions of the issue in Canada, but in the US a recent study<sup>1</sup> stated that American charities will have to find 640,000 new leaders in the next decade. One of the few Canadian studies was done by CentrePoint in Calgary, which revealed that over 80 percent of voluntary agencies saying they plan to leave in the next 5 years, one-third to retire and the rest to seek other challenges.

## **Conclusion**

So there we have a quick, and necessarily partial, overview of the state of the sector. How healthy do we appear to be? What would a healthy sector look like?

If we were talking about the for-profit or business sector we would know what the signs of health are: stable and growing revenues, good employment prospects with constant skill upgrading and high employee job satisfaction, strong investment in technology and other ways to enhance productivity, a diverse workforce, clear business strategies, orderly succession planning, and so on.

Does this look like what I have described in the voluntary sector? No.

So, what is needed? There are no simple solutions, and everything is interlinked, money, people, vision. The easiest thing is to say that, at bottom, the problem is money, or the lack thereof. That is true, but we need to ask, why is the sector so chronically starved of the resources it needs to do the job we ask of it? Clearly the reason is not an absolute lack of cash in Canada; the country is experiencing an economic boom, and on average per capita income has never been higher, nor government revenues and corporate profits so buoyant.

The more fundamental question is, why is the charitable sector, which has an important – even critical – role to play in Canadian society, which is trusted and supported by a large majority of citizens, and which has demonstrated its cost-effectiveness in delivering government services and meeting the needs of vulnerable people, *why* are we not attracting the resources we need to do our job better, to be vibrant and healthy?

No doubt we could all provide our own answers to this question, and I will only offer a few observations.

What is the problem?

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<sup>1</sup> Bridgespan Group, *The Non-profit Sector's Leadership Deficit*.

First, we are overlooked, or to put it differently we don't tell our story very well. The statistic I gave earlier, that the voluntary sector employs more people than the entire manufacturing sector in Canada would suggest that it should receive a comparable amount of attention from politicians and the media as manufacturing does. Every newspaper carries a business section; but when was the last time you saw a newspaper with a Charities section. Employment figures for industry are reported daily. When manufacturing jobs are lost due to the soaring loonie provincial premiers call for an urgent federal-provincial meeting to discuss what must be done. When was the last time anyone suggested that maintaining a vibrant communities sector justified an inter-governmental consultation?

Second, we are fragmented. It is therefore hard to give a coherent account of the problems we face or how we could be more effective. The 2004 and 2005 studies<sup>2</sup> by Lynn Eakin in Toronto that analyzed how government contracts were short-changing the sector by not covering operating costs for the programs they were funding, should have been trumpeted far and wide. But there is no single spokesperson which could command attention. And anyway, people in the charitable sector are genetically pre-disposed to simply knuckle down and try to do more with less. Volunteers don't go on strike; they just burn out!

Because of these two factors, there is no national policy framework for the voluntary sector. No active national leader (though some former ones like Paul Martin and Preston Manning) is talking about how strong citizen organizations enable communities to address local challenges, how they are essential to healthy functioning democracies. Even to talk of a "national policy framework" in Canada seems fanciful. But in the UK, it is not just talked about, it exists! In the UK Treasury Department (our Department of Finance) there exists the *Charity and Third Sector Finance Unit*, and in the Deputy Prime Minister's Office is the *Office of the Third Sector*. The Government has a policy framework and strategy to work with community organizations to promote social and economic regeneration by giving community groups a stronger voice, by improving public services through partnering with Third Sector organizations, by supporting social enterprise...and by providing cash, more than \$1 billion Cdn! Of this amount \$100 million is to go to community foundation endowments to support grants for community groups, \$235 million to encourage youth volunteering...and so on.

In Canada we can only look at this and pinch ourselves in disbelief. All we have is a weak Voluntary Sector Accord, painstakingly negotiated over several years, that is now treated by the federal government as pretty much irrelevant.

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<sup>2</sup> Lynn Eakin, *Community Capacity-Draining: the Impact of Current Funding Practices on Non-Profit Community Organizations* (May 2004); *The Policy and Practice Gap* (March 2005).

## **The Way Forward**

It is not surprising therefore that the sector's financial situation is bad, and given the extent of its dependence on government unlikely to improve. Of course, we need to encourage philanthropy (and the capital gains tax exemption was an important step in this regard), and foundations in particular need to be more flexible and generous with regard to operating expenses. But community organizations also have to be more entrepreneurial in seeking out new sources of revenue, and more strategic in designing programs that focus on long-term sustainability from the very beginning.

A national policy framework might increase the amount of government funding, as it has in the UK. Equally important, it could improve the terms upon which such funding is provided (as the Accord did not). A more realistic level of support for operating expenses could improve salary and other conditions, and make the sector a more attractive place to work, but by itself it is not enough. As we all know, money doesn't by itself solve problems. People solve problems.

We need to attract the right people. Ample evidence exists that younger staff are not necessarily motivated by the same factors as older staff in the sector. They are as personally committed to the "cause", but not prepared to sacrifice their private or family lives to it. In fact their commitment to a cause overrides loyalty to a particular employer or organization. They need to feel valued and to be consulted, and are less comfortable in a vertical structure. More of them are choosing to work in smaller organizations, where they can see how they can make a difference; or they are choosing to start their own organizations.

A national policy framework that supports the sector is not just going to happen. We have to convince Canadians that it is needed, and the politicians have to hear the message. To succeed in doing this, we are going to have to adopt new methods of communicating. Brochures and mail appeals don't cut it in the age of instant messaging and interactive video. YouTube's announcement that it will set aside a portion of its site exclusively for charities is causing many to re-think their strategies for getting their message out – particularly to a younger population. This is not just to encourage donations, though it may achieve that; it is to *communicate* what not-for-profits are doing and why it matters in a way that connects to the intended audience.

Of course, *what* we say is as important as how we say it. We have all heard the cries for more accountability, for greater efficiency, the demand for *results*. And we have all wrestled with the challenge of evaluation and the frustration of not having a simple, single measure of performance, the "bottom line".

In our work there is much change that is hard to quantify, hard to measure. But that doesn't mean that we cannot collect data and demonstrate results – we can gather quantitative *and* qualitative evidence that shows what is changing as a result of our work – and use that to improve performance. As Jim Collins says in **Good to Great and the**

**Social Sectors**, all indicators are flawed. What matters is not finding the perfect indicator, but settling on a consistent and intelligent method of assessing your results and then tracking that rigorously.<sup>3</sup>

This brings me to the final point, which concerns leadership. Several measures to address the looming leadership deficit were suggested by Lynne Toupin, Executive Director of the Human Resources Council for the Voluntary/Non-profit Sector, and Betty Plewes in the last issue of *The Philanthropist*.<sup>4</sup> Planning is key. Existing leaders should be helped to transition into new roles as mentors and part-time consultants; training is needed for middle management, along the lines now being funded by the Metcalf Foundation with York University in Toronto; people should be drawn in from business and government to contribute their expertise in areas such as fundraising or HR. Crucially, capacities and experience must be shared: this might mean some organizations merging their administrative functions, donors paying for peer-to-peer learning opportunities, and a strong focus on attracting people from Aboriginal and other minority communities.

The voluntary sector may never be able to compete with the business world or government service on the basis of what it pays, but we do have the ace in our hand: people want to *believe* in what they do, they want to make not just a living but a *difference*. That is what we offer. But it must be more than a promise or a hope. We are not just organizations meeting human needs, or delivering a service, or helping our neighbours. **We are the lifeblood of a democratic society; we are the means by which people act together to improve their lives; we are the drivers of innovation and change to overcome social problems like poverty or exclusion or injustice.**

That is the message we must communicate, and that we must embody. If we succeed, we will attract the staff and volunteers we need, we will develop the great leaders, we will generate the public recognition and political support to amplify our efforts. We will overcome some of the present day challenges I have mentioned, and we will create a community sector that is not only healthy itself but which engages Canadians in the larger task of reinvigorating our country.

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<sup>3</sup> Jim Collins, p. 8

<sup>4</sup> Lynne Toupin and Betty Plewes, Exploring the Looming Leadership Deficit in the Voluntary and Non-Profit Sector, *The Philanthropist*, Vol. 21, No. 2