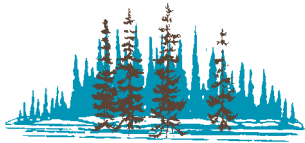


Intersections and Innovations

Change for Canada's Voluntary and Nonprofit Sector



The Muttart Foundation



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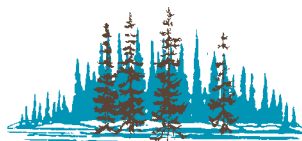
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Acknowledgements

For far too long, Canada has lacked a comprehensive resource examining Canada's charitable sector. That has now ended.

The Muttart Foundation has spent many years focusing on building the capacity of charities in this country. The publication of this collection is another contribution to that effort. By understanding more about itself, the sector can continue to develop and find new ways to serve Canadians and those in need outside our nation.

The authors of these essays bring different perspectives on the role and inner workings of Canada's charities. Collectively, they bring an unprecedented insight into the work of organizations whose diversity is exceeded only by their desire to serve.

It is difficult to express adequate appreciation to Dr. Susan Phillips of Carleton University for her leadership of this project. She has been a source of encouragement, persuasion, cajoling and improving authors from across the country. Her efforts now bear fruit as we make this material available to students, academics, practitioners and others interested in the history and future of Canada's charities.

Amanda Mayer of the Lawson Foundation volunteered at the outset to be the administrative overlord of the project, keeping the editors and authors up to date and keeping track of various versions of articles. We are so grateful for her skills, her patience and her friendship.

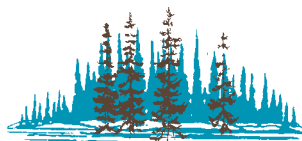
None of this would have been possible, of course, without the work of authors, themselves academics and/or practitioners. They took time from their schedules to contribute to a resource we hope many will find valuable.

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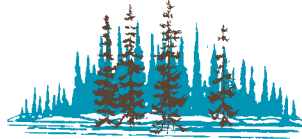
The work of all of these individuals has come together in this resource which we dedicate to all of those in, or interested in, Canada's charitable sector.

Malcolm Burrows, President

Bob Wyatt, Executive Director



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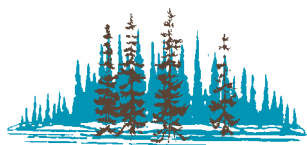


Part II Navigating a Changing Environment

**Governance and the
Regulatory Environment**

The Funding Environment

The People Environment:
Leaders, Employees,
and Volunteers



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Part II Navigating a Changing Environment

Governance and the Regulatory Environment



Chapter 7

The Fine Balance of Nonprofit Sector Self-Regulation: Assessing Canada's Standards Program

Susan D. Phillips, Carleton University

Christopher Dougherty, Carleton University

Cathy Barr, Imagine Canada

What impels charities and nonprofits to “behave” and perform well? In addition to the work of mission-driven, skilled leaders and staff, an extensive regulatory system defines and oversees good conduct. Each component of this “polycentric” system (Phillips, 2013) has a somewhat different emphasis. The core element is an organization’s board of directors, whose role is to set strategic directions, ensure achievement of mission and compliance with various legislative and regulatory requirements, and provide accountability to partners and beneficiaries (see Chapter 8 by Charters). Governmental regulation of charities through the Charities Directorate of the Canada Revenue Agency (CRA) is concentrated on ensuring that tax-subsidized donations are directed to charitable purposes and preventing fraud (see Chapter 4 by Wyatt).¹ Sector self-regulation complements both, with a focus on enhancing the quality of governance, management, and performance and “signaling virtue” to the public (Gugerty, 2009).

Sector self-regulation can take various forms, from voluntary codes of conduct that rely on an honour system of compliance and transparency, to certification systems with third-party oversight of adherence to standards of conduct, possibly with authority to sanction non-compliance (Warren & Lloyd, 2009). Canada is one of the few countries to have established a rigorous third-party certification system – Imagine Canada’s Standards Program – that is open to all charities and public benefit nonprofits. As in most voluntary certification systems, the success of the Standards Program rests on a fine balance: between being stringent enough to influence organizations’ behaviour and be seen as credible with policy-makers and the general public *and* sufficiently flexible and affordable to work for and encourage participation by a wide range of



organizations. In addition, a certification mechanism needs to be financially sustainable, able to support a credible review and monitoring process on a budget that does not make the cost of participation a significant barrier. Self-regulation can readily fail on any of these conditions: because it is too “soft,” too stringent, or not sustainable. The question of how to evaluate the effectiveness of a certification system is thus not straightforward.

This chapter examines whether and how Imagine Canada’s Standards Program is managing this balancing act: what are its strengths and shortcomings? We begin with the broader question: why would a nonprofit or charity voluntarily participate in certification? What are the incentives to participate, and what benefits are realized from it? We argue that the Standards Program has the balance of stringency of standards and openness of participation about right. However, its emphasis on rigour means that the process can seem quite onerous, and the number of accredited organizations is still, and likely always will be, small relative to the size of the sector. Rather than participation numbers, however, the Standards Program’s legitimacy hinges on 1) whether it is leading to better practices by accredited organizations, 2) whether its reputation and reach across the sector is broad enough to educate and encourage self-improvement, even among organizations that do not seek accreditation, and 3) how widely recognized its “trustmark” is with stakeholders and the public.

Why Sector Self-Regulation? Why Participate?

Mechanisms of sector self-regulation are common in a wide range of industries, including nonprofit sectors, around the world (Breen, Dunn, & Sidel, 2019; Crack, 2018; Sidel, 2016). Their popularity has grown in recent years with the rise of fair-trade products. To verify to the consuming public and supply chains that forestry practices, seafood, coffee, and clothing, among many others, are in fact produced in the sustainable manner that their sellers claim, these sectors have established their own independent “private governance” organizations with the capacity for standard-setting and auditing (Auld, Renckens, & Cashore, 2015; Fransen, Schalk, & Auld, 2016; Potoski & Prakash, 2013; van der Heijden, 2020). The nonprofit sector also has a long history of self-regulation by transparency (Bekkers, 2010; Breen, Dunn, & Sidel, 2019; Gugerty, Sidel, & Bies, 2010; Sidel, 2010), although most mechanisms are voluntary in participation and rely on self-reporting on adherence to the standards. While participation in Canada’s Standards Program is voluntary, it is more akin to the third-party certification systems active in fair-trade sectors than most nonprofit codes of conduct to which organizations simply declare acceptance and adherence.²

Why do organizations voluntarily participate in certification processes, and what makes them successful? The literature offers a variety of motivations that drive self-regulation (Sidel, 2010), which can be distilled into three broad categories: 1) assurance and control, 2) self-improvement and innovation, and 3) empowerment and field-building. By far the dominant argument is rooted in a rationalist case of assurance: that certification serves as “regulation by reputation” (Tremblay-Boire, Prakash, & Gugerty, 2016) and it operates as an “accountability club” (Prakash & Gugerty, 2010; Tremblay-Boire et al., 2016). Trust and confidence are critical to the success of the nonprofit sector – to attract volunteers and donors, win service contracts, and retain users



of their services. However, the sector has to deal with a “lemon problem” (Tremblay-Boire et al., 2016): that one scandal can tarnish the entire sector, and it is difficult for the public and other nonprofits to tell the good organizations from the problematic ones.

The notion of an accountability club is based on this underlying problem of information asymmetry. Without “owners” there is a lack of monitoring from above, while individual members, donors, or volunteers lack information, resources, time, or expertise to monitor the behaviour of nonprofits from the base. Certification compensates for the information problem by attesting to an organization’s reputation. It signals “virtue and quality of operations” (AbouAssi & Bies, 2018), thus enhancing credibility and competitiveness in accessing resources. The incentives to join an accountability club are branding (the “trustmark” that signals good conduct to the public) and certain private benefits that are not available to those outside the club. Participation should, theoretically, provide competitive advantages of increased trust, more successful fundraising, access to contracts and other resources, and relaxed rules by state regulators (Prakash & Gugerty, 2010; Slatten, Guidry, & Austin, 2011). By providing a stamp of quality on the club members, additional government regulation may be prevented – which is often an equally important, if not widely advertised, concern. In short, from an accountability club perspective, participation is strategic self-interested behaviour.

Accountability clubs present two operational challenges. The first is recruiting enough members to be seen as a legitimate brand for the club itself. Standards and the certification process need to be sufficiently rigorous to shape behaviour and be credible to others, but not so stringent, or membership fees so costly, that they dissuade a broad base of participation (Prakash & Potoski, 2007). The early adopters tend to be organizations that are already compliant, or have the capacity to quickly become so; those that need to protect and promote a highly visible brand; and those in need of a reputation boost (Auld, Gulbrandsen, & McDermott, 2008; Phillips, 2012). Once these early joiners are in, the club still needs to attract a wider circle of members for whom the competitive advantage may not be so readily apparent.

The second challenge of accountability clubs is to avoid “shirking,” whereby organizations get a reputational boost by joining but do not actually adhere to the standards. The accountability club must be able to disclose, verify information, and monitor behaviour while ensuring that the effort and costs of doing so are manageable (Fransen et al., 2016; Gugerty, 2009). When participation in such clubs is voluntary, the trustmark needs to be sufficiently recognizable for its signal to be seen as meaningful. The challenge of finding a workable balance has led to considerable skepticism of self-regulation. Indeed, as Tremblay-Boire and colleagues (2016: 720) find in a study of 224 nonprofit clubs, most are weak in monitoring and sanctioning so that “they are unlikely to provide a reputational signal strong enough to allow outside stakeholders to differentiate legitimate nonprofits from opportunistic ones.” An even more pessimistic view is that, over time, accountability clubs evolve to become, well, “clubby.” They give an appearance of high standards by a small circle of large nonprofits that can afford to participate and that seek to protect their access to resources, but then constrain others from joining (Berger, 2016).

The dominance of accountability club theory has diminished the value of two alternative – or additional – explanations: that self-regulation serves as a means of learning, improvement, and innovation and that it works to empower a sector (Bernstein & Cashore, 2007; Grabs, Auld, & Cashore, 2020). Whether regulation can enhance innovation, which then offsets the costs of compliance to standards, is a long-standing debate, particularly in the environmental field



(Porter & van der Linde, 1995; Lim & Prakash, 2014). The pathway to innovation is through overcoming organizational inertia by prompting more critical examination of management systems, processes, and technologies – with self-assessment being the first step in a certification process. This is usually initiated by senior managers who embrace the regulatory goals and are open to learning (Gilad, 2010), which then prompts deeper engagement with and more strategic direction by the board. The factors that encourage organizations to retain participation in voluntary certification programs, however, are not the same as those that encouraged them to join in the first place (Coglianese & Nash, 2016). Over time, the value of better practices adopted through the self-assessment and monitoring may come to outweigh the brand. In this light, the challenge for a certification body is to encourage learning and establish a continuing “community of practice.”

A third set of motivations, often intertwined with improvement and innovation, is to enhance the capacity of participating organizations, create greater awareness and legitimacy for a sector as a whole, and encourage diverse, marginalized organizations to see themselves as part of the sector. The aim is to engage others in a collective project (Bartley, 2007). Over time, a sense of being a coherent sector develops, new sector-wide norms of conduct emerge, informal norm-setting occurs, and organizations begin to participate in certification because it is the “right thing to do” (Bernstein & Cashore, 2007). The network-building extends beyond the organizations seeking certification. It also includes coaches and consultants who prepare and advise participating organizations through the self-report and appraisal stages, peer reviewers, the volunteers who participate in the program’s governance, and program staff. This wider circle then creates new expertise available to the sector as a whole rather than limiting the benefits to the organizations seeking certification. In order to establish broad public awareness and positive reputation of the sector, rather than of specific organizations, the trustmark and the certifying body have to be widely advertised and recognized, effectively becoming a household brand.

These three differing views on rationales for self-regulation – competitive advantage, innovation and learning, and sector empowerment – produce different criteria for evaluating the effectiveness of the Standards Program and different expectations of what we will find. The accountability club logic suggests either a small cadre, likely of large organizations able to meet a rigorous set of standards, or participation by greater numbers with weak standards and oversight. In either case, enhanced revenue generation and other tangible effects of competitive advantage gained through certification should be seen as the primary benefit (Feng, Neely, & Slatten, 2016). Research suggests that fees are not the determining factor in participation and there is no direct trade-off between strength of standards and cost of fees in determining overall compliance costs (Gugerty, 2009): high fees do not substitute for stringent standards, rather the two are complements.

With a main focus on certification to promote organizational improvement and innovation, participating organizations should indicate that they actually improved their internal practices and realized performance gains. Success for certification is not claimed on the basis of numbers, as building a community of practice takes time. When field-building and sector empowerment are important goals, numbers do matter, but more significant are the diversity of organizations participating and heightened public awareness of the sector. Of course, the rationales for certification are not neatly compartmentalized; they overlap and occur in various mixes. Nevertheless, these three scenarios provide useful heuristics for assessing what might count as a success, or a caution, in the Standards Program.



The Standards Program

Canada's first move toward sector-wide self-regulation occurred in 1998 with the creation of the Ethical Fundraising and Financial Accountability Code by the Canadian Centre for Philanthropy (which would become Imagine Canada). This was an honour-based voluntary code, without third-party review, monitoring, or sanction mechanisms. The initial code was updated and relaunched in 2008 to give it more teeth by requiring charities to provide documentation that they were meeting its standards. Just over 400 charities, about the same number as the earlier version, signed on. It was apparent, even before the Ethical Code was relaunched, that a more comprehensive set of standards, extending beyond fundraising and finances, would be needed to bolster public confidence in the sector (ARG, 2007; Phillips, 2012). It was also clear to sector leaders that *how* such standards were developed mattered – that this needed to be an open, sector-led, and transparent process. To this end, a group of sector leaders led by Imagine Canada came together to develop a broader set of standards and a process of “accreditation” (the term used by the Standards Program). Following extensive consultations with the sector, 52 founding members participated in a process to develop what came to be known as the Standards Program. The group discussed the option of creating a new organization to run the program but ultimately decided it should be operated by Imagine Canada. The Standards Program was launched in the spring of 2012.

The main arguments supporting the case for sector-wide standards and accreditation (ARG, 2007) focused on 1) improving the effectiveness of charities, 2) promoting transparency and accountability so as to enhance public trust, and 3) avoiding further regulation by government. Core principles stated that the process was to be “by the sector for the sector”; emphasize education, capacity-building, and continuous improvement; and be transparent. The standards would be publicly available so that any organization could use them as a guide to good practice or to benchmark their performance. This would allow all organizations to benefit – not just those able or willing to seek accreditation. A tricky financial balance was also required between ensuring that accreditation would be a “value add” for organizations, not constrained by costs, and a business model that would be self-financing so as to maintain independence of the process, and without the creation of new infrastructure.

The Standards Program is governed by a volunteer standards council, whose members are appointed by the board of directors of Imagine Canada. The council is responsible for, among other things, approving changes to the standards, rendering decisions on accreditation, and rendering decisions on complaints about program participants. The majority of members of the council must be nominated by accredited organizations. The 73 [standards](#) are positioned as “foundational” ones, relevant for most charities and nonprofits, although the specifics of many are differentiated by size of organization.³ They cover five areas: board governance (24 standards), financial transparency and accountability (13), fundraising (14), staff management (13), and volunteer involvement (9).⁴

The entire process of accreditation normally takes about two years to complete. It starts with a self-study during which staff or volunteers compare an organization's practices to the standards. This stage varies in length, but expectations set it at six to 12 months. Once the organization decides to pursue accreditation, it joins the “Standards Community” for a nominal monthly fee (currently from \$53 to \$184, depending on organization size) that provides access to assistance



from staff, peer advisors, and coaches and to an online set of sample policies. When the application is submitted, it first undergoes a check for completion by Imagine Canada staff. Complete applications are assessed for compliance with each standard by an “application review panel” composed of volunteer peer reviewers. Based on the review panel’s report, staff members provide a recommendation to an “accreditation decision panel,” also made up of volunteers, that makes the final decision. Accreditation fees currently range from \$500 to \$6,000, depending on organizational size. Once accredited, the organization can display the trustmark. Monitoring occurs through an annual submission that demonstrates that selected standards are being met and through a complaints process. Reaccreditation is required every five years.

Has the Standards Program Achieved the Right Balance? Is It “Successful”?

The differing theories about self-regulation would direct us to look to different criteria for answers to these questions: to the number, size, and diversity of accredited organizations; whether a competitive advantage has been realized, or learning and innovation occurred; whether the sector as a whole has been strengthened; and whether it is financially sustainable. Our analysis is based on 1) a survey of accredited organizations conducted by Imagine Canada in 2017, 2) the results of consultation sessions held with program participations and key stakeholders in six cities in May and June 2019 (with additional written briefs), 3) administrative data from the Standards Program, and 4) 14 semi-structured interviews conducted (independently of Imagine Canada) with accredited charities and peer reviewers in late 2017 and early 2018.

Number and Diversity of Accredited Organizations

Judging success of accreditation on the numbers alone is, at best, a mug’s game, or at least not very informative. At the end of 2020, 254 charities/nonprofits had been accredited (and some reaccredited) with an additional 73 in process. Compared to the total number of charities and nonprofits, estimated at about 170,000 (see Chapter 2 by Lasby & Barr), this achievement seems trivial. Using a ratio of accredited to the total population is a faulty measure, however. Small all-volunteer organizations are not likely to seek accreditation, nor are religious congregations or many types of nonprofit associations that don’t see themselves as part of this “sector.” A fairer comparison is with comparable certification systems such as the Standards for Excellence Institute, an initiative of Maryland Nonprofits launched in 1998 that now operates across many US states: it has a current total of 217 certified nonprofits (Standards for Excellence Institute, 2020).

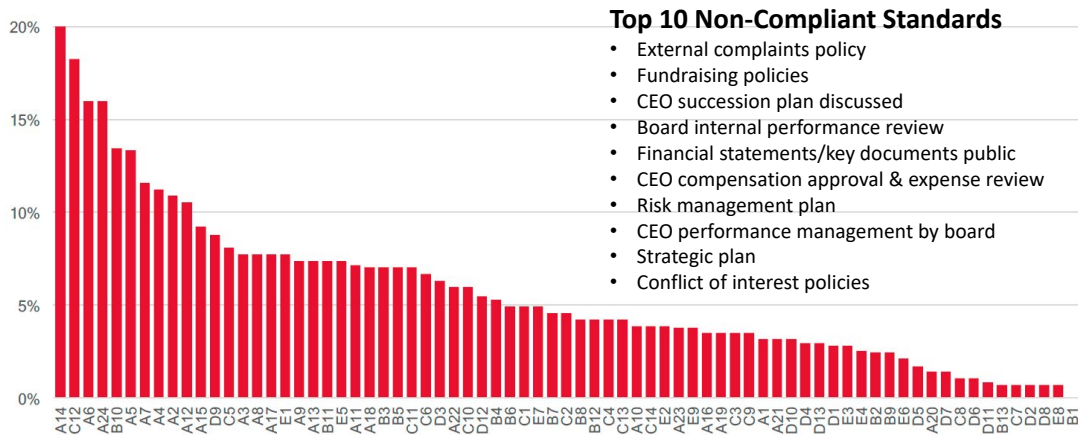
While numbers in the Standards Program are still small, the types of organizations accredited is remarkably diverse. Contrary to accountability club theory, they are not primarily large charities: in 2020, 36% are mid-sized (level 2 – fewer than 50 full-time employees, or FTEs, and \$10 million in expenses) and 20% are small (level 1 – fewer than 10 FTEs and \$3 million in expenses). They represent virtually every subsector, and, while Ontario dominates, 45% are located in other provinces.



How Easy Are the Standards to Meet?

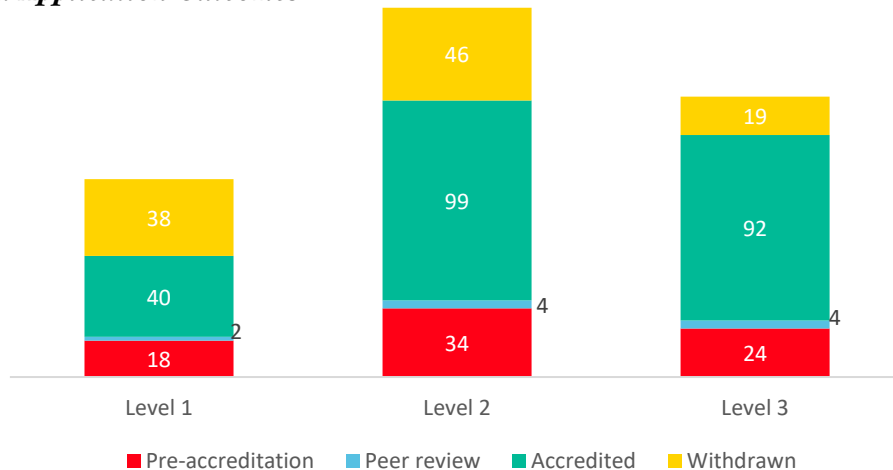
The rigour of standards, compared to current practice, is difficult to assess, but three indicators are informative. One is the extent to which applicants' practices do not initially meet the standards, which suggests that the standard surpasses current practice, or alternatively that the standard is not very meaningful. As Figure 1 illustrates, 10 standards have a non-compliance rate of more than 10%; another 22 have non-compliance rates between 5 and 10%; and the remainder have non-compliance rates under 5%. This suggests that the vast majority of the standards are in line with current practice, while a few may surpass current practice.

Figure 1: Rates of Compliance with the Standards



A second indicator is the rate of “clean passes” compared to contingent passes and withdrawals. The rate of contingent passes is quite high (Figure 2), which suggests the review process is rigorous. Very few organizations are accredited without making changes following the initial peer review. The fact that smaller organizations are more likely to withdraw from the process is a further indicator of stringency, as the greater capacity of larger organizations enables them to persist through the process.

Figure 2: Application Outcomes



Overall Satisfaction and Perceived Benefits

Overall, satisfaction with the Standards Program (Figure 3) is high for the leaders whose organizations have completed accreditation or are in process, and the majority indicate they are likely to continue their participation and seek reaccreditation.

Figure 3: Overall Level of Satisfaction of Accredited Organizations with the Process

Based on your organization's overall experience to date, how satisfied are you with the Standards Program?

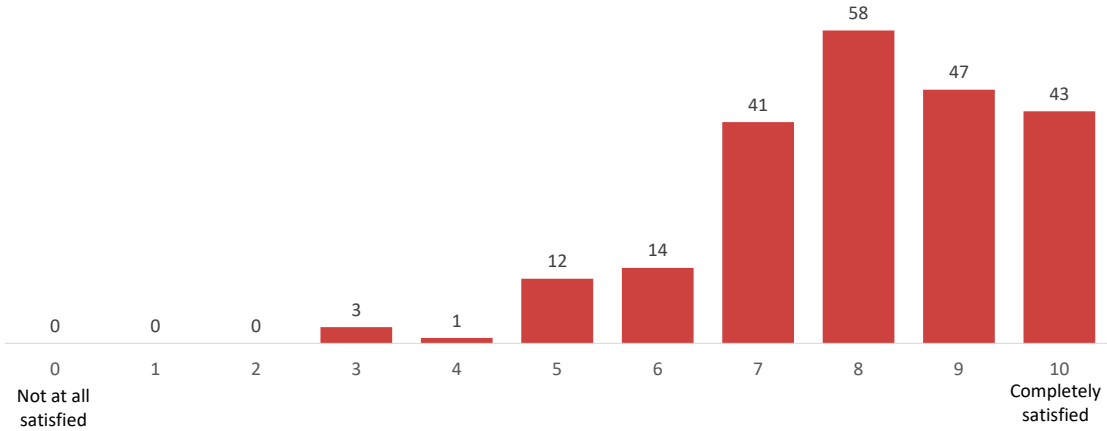


Figure 4: Perceived Benefits of Accreditation (Aggregate) by Organizational Size

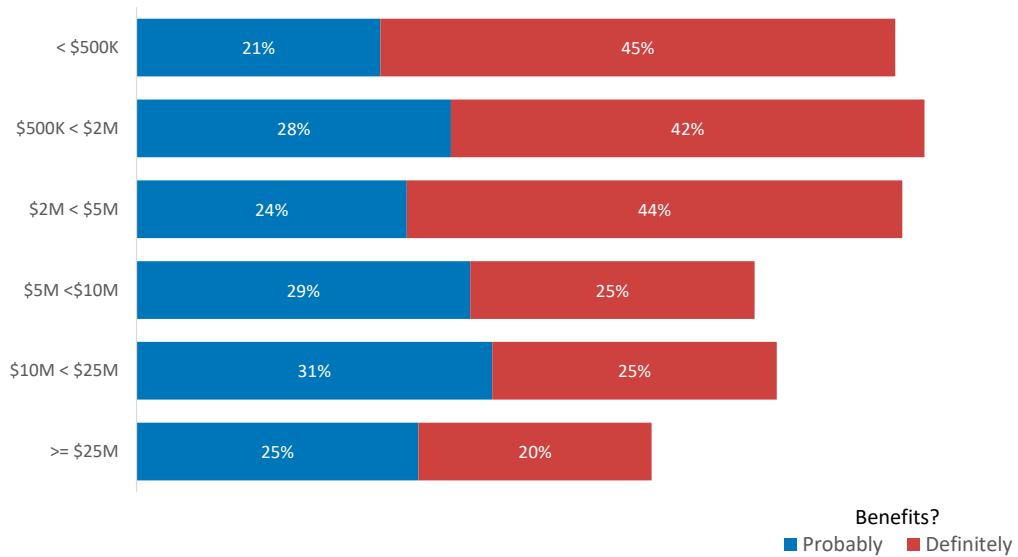
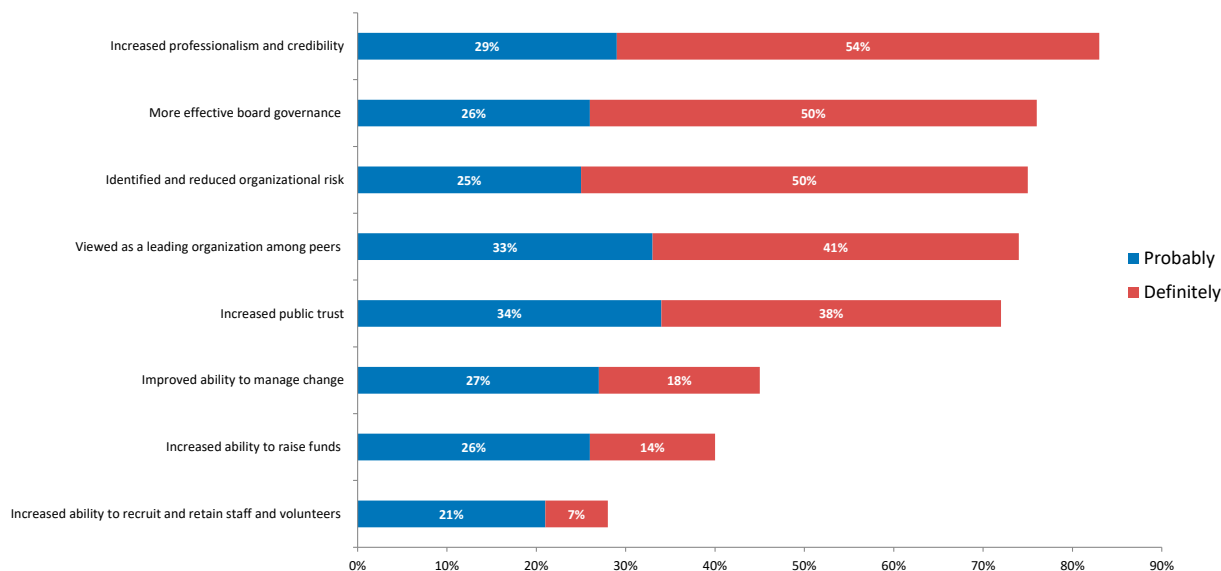


Figure 5: Type of Perceived Benefits of Accreditation



The degree of perceived benefits attained (or expected) varies by organizational size, with the highest ratings by mid-sized charities (\$500,000 to \$5 million) and the lowest by the very large organizations (Figure 4). So, too, do the type of benefits realized. If the value of participating were to align with the notion of an accountability club, private benefits such as increased fundraising should dominate. Indeed, other nonprofit certification systems such as the US Standards for Excellence Institute (2020) advertise increased fundraising and growth to be the primary advantage. This is not the case for Canada’s Standards Program. Rather, the survey results indicate that increased professionalism, more effective board governance, and greater ability to reduce risk are the main benefits (Figure 5). Greater success at raising funds and recruiting staff are the least important. As reinforced by our conversations with nonprofit leaders, accreditation appears to enhance governance processes, which indirectly supports greater operational effectiveness. To date, there is no strong perception by participants that the Standards Program and its trustmark are having a broad effect on public trust, giving, or donating behaviours, which helps explain the lack of increased success at fundraising attributable to accreditation.

Growing Accountability *to* and *within* Boards

Accountability *to*: The process of preparing for accreditation affects governance activities by establishing norms for board-manager relationships and introduces practices that contribute to forging the characteristics of a learning organization. The result is likely that administrative and governance functions (and the dollars spent on overhead costs) become more effective enablers of mission achievement. For all the organizations we studied, the decision to seek accreditation was initiated by senior managers. The reason? Managers see it as their responsibility to support their boards in fulfilling the duties of a board; the standards help managers regularize and prioritize flows of information, reviews, and approvals. Annual compliance surveys and the



requirement for reaccreditation every five years help keep these flows a priority, reducing the likelihood of compliance slippage. In addition, the internal reporting and reviews required under the standards increase the capacity and contribution of their boards while reducing the likelihood of board-manager conflicts over organizational control.

Accountability *within*: The standards also help boards build their own internal accountability in key areas such as succession planning, board member evaluation, and regular policy reviews by allowing board and staff leaders to appeal to an external authority, which depersonalizes these often sensitive conversations. Indeed, we heard how one board uses the standards to train new board members on their roles and responsibilities. The written documentation required to meet the standards also promotes continuity over the long- and short-term. The standard governance practices are likely to persist over time when board members or managers change. In the day-to-day, they also reduce a board's demand for impromptu reporting from management. If board packages are a means of "feeding the beast," the standards are akin to putting the beast on a meal plan instead of taking it to a buffet. In cases where board members expect some irregularity, drama, or surprises, this regularization of reporting and reviews can make board meetings feel rote or artificial – with the positive effect of encouraging boards to reallocate some of the time they were spending on routine responsibilities to strategic or generative work.

Facilitating Learning

Accreditation does not directly cause an organization to be more effective. However, the process of seeking and maintaining accreditation helps establish the conditions that enable increased effectiveness. First, it requires people to identify and document their mental models for how their organization works in the areas covered by the standards. Second, it engages people in connecting these models to the standards, which are themselves interconnected, and encourages them to view their activities as part of a system. Third, it prompts teams to learn more about their organization, generate new knowledge about their systems and processes, and share that information through accreditation – activities that characterize a learning organization (Senge, 2006). In almost all cases, managers talked about using accreditation to move from informal and oral ways of working in their organizations to documenting, harmonizing, and systematizing their work, which has the effect of improving institutional memory and reducing conflicts over processes. Further, managers noted that the work done for accreditation helps their organizations go beyond the standards to innovate and further improve their practices. Examples include improving D&O (directors and officers) insurance coverage; strengthening financial controls leading to removal of the "cash donations cannot be verified" qualification on their auditor's letter; enhancing their board's reputation in the community, which had the spinoff effect of increasing competition (and requiring a selection process) for board seats; and successfully revising their charitable objects with the CRA.

The lesson is that these organizations used the standards as a starting point, not as an ultimate goal.

Effects on Volunteer Peer Reviewers

The volunteers who serve as peer reviewers indicate that this role assists them in developing their own expertise and capabilities. This occurs throughout the process, particularly during discussions and consensus-building with colleagues from varying backgrounds in the application

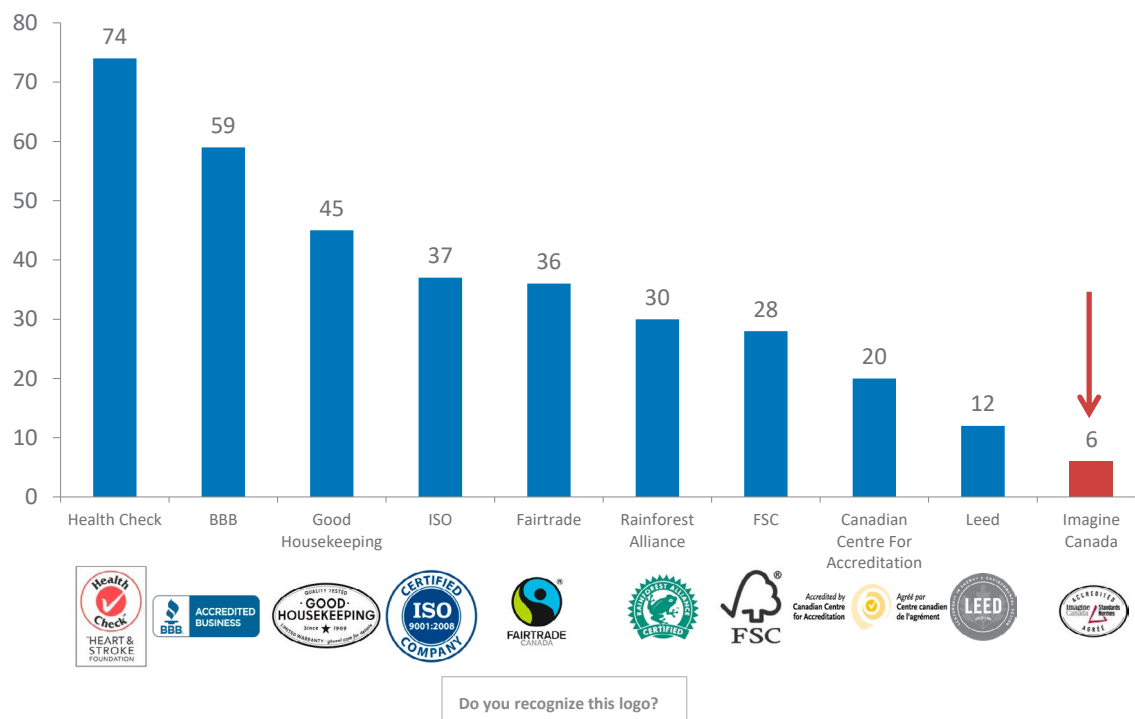


review panels. As a result, the volunteer peer-reviewer pool is creating important new capacity within the sector. These volunteers also tend to be engaged in the accreditation process within their own organizations, are experienced with other accreditation programs, and participate in multiple organizations, encouraging them to pursue accreditation or at least adopt best practices based on the standards. An ongoing challenge for Imagine Canada will be ensuring that the pool remains fresh and vibrant and grows to match expansion of the Standards Program. Currently, the peer reviewer pool is quite experienced and very supportive, but the low recruitment and turnover rates create a risk of inadequate renewal if there is an insufficient pipeline of people to replace highly skilled volunteers as they inevitably move on from their roles.

Influencing Donor Behaviour

While building public confidence in the sector is a core goal of the program (Standards Steering Committee, 2009), and certification schemes have been found to lead to this result in other contexts (Bekkers, 2003), it appears that the Standards Program is not yet large, mature, or well-known enough to have an effect on public perceptions or donor behaviour. Indeed, public awareness of the Standards Program trustmark is very low, according to a survey conducted for Imagine Canada. Compared to other certification “brands,” Imagine Canada’s trustmark is recognized by only about 5% of Canadians.

Figure 6: Recognition of Certification Logos



The sense from managers was that, while they were proud of achieving accreditation and of the changes within their organization that came from it, they want to see key stakeholders (e.g. audit firms, the Institute of Corporate Directors, major corporate funders, and large foundations) become much better informed about the standards. There was a difference of opinion, however, about how much responsibility for building awareness lies with Imagine Canada and how much should be assumed by accredited organizations themselves. There was nevertheless agreement that organizations seeking accreditation should be prepared to invest some time and energy into informing and educating their own stakeholders on the Standards Program.

Two subsectors in which a different pattern may be emerging are in healthcare fundraising and international development, where the “markets” are saturated, highly competitive, and fundraisers are seeking out accreditation as a differentiator for their organizations. This fits with van der Heijden’s (2020) argument that, in denser networks, prospective participants are introduced to certification by peers and, when in competition with peers whose organizations are certified, they will pursue certification in order to gain or maintain legitimacy. In the dense networks of healthcare and international development, the perception is that a donor is unlikely to make a decision to give on the basis of accreditation alone but is more likely to choose an accredited organization over an unaccredited one if all else is equal. If this pattern continues, the standards may become an expected norm in these subsectors more quickly than in others.

Limitations of the Standards Program

Although the Standards Program appears to be effective in terms of encouraging learning and improved practices, three main limitations are apparent: 1) organizations need to have a minimum capacity for accreditation to be meaningful, 2) the standards are designed to be broadly applicable, so not every organization will get the same value from every standard, and 3) the standards review process can sometimes become overly focused on technical compliance and risk management. In addition, the potential to coordinate with other accreditation systems within the sector and with government regulation is a missed – but perhaps elusive – opportunity, as there seems to be little interest from governments. Finally, financial viability is itself a fine balance.

Pursuit of accreditation requires capacity, particularly time from staff and board members to give sustained attention to the application and to the processes required to maintain compliance over time. Accredited organizations and peer reviewers suggest that there may be a minimum floor beneath which an organization would not get significant benefit from seeking accreditation. Where this floor sits may depend on the complexity of an organization’s mission and its operating context. In some contexts, lowering the barriers to participation may be a matter of extending the window of time for accreditation or bringing a number of organizations through the process together as a cohort with support from a higher-capacity organization within their community. The change in 2018 to define “level 1” as 10 FTE staff (up from five) and expenses as \$3 million (up from \$2 million) may also make the program more accessible to smaller organizations. Although capacity may be a constraint, the fact that one in five accredited charities and nonprofits are small or medium-sized, and smaller ones perceive they have gained the most, suggests the real limitation may not be capacity but a lack of knowledge of the benefits and requirements of the process.



The question about the applicability of the standards to all organizations was raised in two contexts in our interviews: organizations that are not involved in activities covered by the standards and those operating in environments that present greater risks than the standards are meant to address. In the first case, organizations may simply have to produce a policy on paper that they do not intend to use (for example, a charity funded entirely by government service contracts creating a donor naming section in a fundraising policy). In the second, an organization with thousands of volunteers working one-on-one with vulnerable populations noted that the relevant aspects of the standards do not adequately address the risks inherent in their programming, so they supplemented these with Volunteer Canada's Code for Volunteer Involvement. In both cases, however, there is a perception that the value of the trustmark outweighs the costs of demonstrating compliance in areas that do not make as much sense for their organization.

A challenge of peer review processes is that they can become bogged down in technical matters, requiring applicants to resubmit evidence of compliance due to very minor issues. This concern was raised by both peer reviewers and applicants in our interviews. Since those interviews were conducted, the Standards Program has sought to mitigate such problems with a change to the process that separates decisions about compliance with specific standards (made by an application review panel) from decisions about accreditation (made by the accreditation decision panel). In our interviews, peer reviewers also expressed some frustration about the inability to distinguish between marginal applications and leading-practice applications, as there is no option in the trustmark for "bronze, silver, or gold" levels. In general, these are an annoying but acceptable feature of the review process. The challenge for applicants is to understand that this dynamic exists and ensure that their applications clearly demonstrate compliance with the standards in order to minimize the time that all parties need to spend dealing with these issues.

Interactions with Other Regulatory Schemes

Our starting point of this chapter is that charity regulation is polycentric, involving multiple components. Government and sector regulators may act quite independently of each other – indeed, sometimes at odds – or may coordinate their regulatory goals and actions into more integrated mechanisms of co-regulation (Gilad, 2010; Phillips, 2012). Co-regulation, both between state and sector and within the charitable sector, is underdeveloped, however, and in this regard the Standards Program is underused.

For many parts of the charitable sector, the Standards Program is only one of several self-regulatory processes. Those in health, for instance, are also accredited on the health-related dimensions of their programs; those in children and human services have their own accreditation mechanisms, as do Christian charities, among others. The higher-capacity charities we interviewed pointed to the potential for creating a coordinated suite of accreditations to address their major operational activities and areas of risk, with Imagine Canada's program filling a governance niche. The various program-specific accreditation processes often require site visits by evaluators from multiple certification bodies that can be costly, time-consuming, and intrusive to complete. For these organizations, an omnibus standards program may be secondary, if useful at all. However, it also suggests the potential for greater coordination of the mechanics of dual accreditation systems or harmonization of overlapping standards to reduce the investment of time.



It is noteworthy, though, that the Standards Program appears to have greater value for federations than for stand-alone organizations. Leaders from federations reported using the Imagine Canada Standards to complement their existing programmatic and financial standards to address their governance needs. Federations are using a range of creative strategies: the coordinating body seeks Imagine Canada accreditation to highlight its importance to members; all the federation members pursue accreditation with a common deadline and centralized support; federations adapt and incorporate the Imagine Canada Standards into their internal accreditation programs. Use of the Standards Program may also help federations mitigate the challenges of internal politics. Interference by the coordinating body (or other members) in the governance and operations of a member may be a political landmine in many federations, but gains of improved practices and avoidance of political challenges can be achieved by using an external set of standards.

Government regulation or co-regulation was almost entirely absent from conversations about the Imagine Canada program, and the few who did mention government did not talk about interactions between state- and self-regulation. Unlike its US counterpart, the CRA has been rightly reluctant to attempt to establish guidance and monitor charity governance – for jurisdictional reasons and because it is enormously difficult for a state regulator to do so. The complementarity of the focus of the Standards Program and that of the CRA creates an opportunity for closer coordination without sacrificing the independence of either (Phillips, 2012). It is worth a closer look, in our view.

Financial Viability

Sector self-regulation bodies are seldom self-sustaining on the basis of fees alone, as demonstrated by the experience of the multitude of certification bodies for fair-trade products (Grabs et al., 2020). From the start, the Standards Program has had to trade off accessibility through low fees for small charities and being a financially self-sustaining program. For the first five years, costs exceeded revenues, with the gap covered by grants and general operating revenues. This imbalance required some creative rebalancing. One challenge was on the front end; initially, organizations that sought accreditation signed an agreement (and paid a small application fee), which gave them access to staff resources and imposed a deadline to complete the process. But many found the deadline too restrictive and never completed accreditation, while still incurring staff costs to help them prepare. The solution was to abolish the agreements and deadlines and instead establish the community of practice (with a monthly participation fee) of peers and volunteer coaches, rather than Imagine Canada staff. In addition to reducing costs, this had the effect of building out expertise across the sector.

A second challenge in any certification system with graduated fees is that the costs of accrediting small organizations are subsidized by the larger ones, creating an imperative to attract a critical mass of large organizations. Rather than cap the number of small organizations, Imagine Canada worked to expand participation overall, and this critical mass will be essential to its future viability. Finally, the support of key funders, particularly Canada Life and the Lawson Foundation, has been critical to the financial sustainability of the program.



Emerging Trends: Can the Standards Program Contribute?

While managers and peer reviewers generally believe that the standards are appropriate and cover the right areas, emerging trends may require additional standards in the future. Top of mind were intersectional questions of diversity, inclusion, equity, decent work, and harassment, both from the perspective of ensuring that organizations reflect the communities they serve and in terms of responding to harassment by donors and board members of organizational staff and volunteers. Next was the question of financial sustainability and whether there should be a standard for larger organizations around cash reserves or other measures of sustainability. Finally, there was the question of the definition, measurement, and reporting of outcomes, impact, and mission achievement. These are complex issues, and addressing them through the standards would be challenging because of the need to concurrently respect and accommodate organizational context, align any new standards with existing standards in mediating governance, and write standards that would be meaningful to organizations across the whole sector.

A challenge that lies ahead is the impact of COVID-19 on the capacity to participate in and the perceived value of accreditation. As organizations manage through and recover from the devastating effects of the pandemic on the sector, accreditation simply may not be a priority, as they don't have the capacity to undertake the work required. It would be shortsighted, however, to diminish the value of accreditation. Given that the sector will need to rebuild organizational capacity, reinvent many aspects of its work, manage leadership succession, be more genuinely inclusive, and attain a place on public policy agendas, its credibility and perceived accountability will be more important than ever. An interesting research question – one we plan to take up – is whether accredited charities and nonprofits proved to be more resilient during the pandemic than comparable organizations not accredited. A second consideration is that public trust in the sector seems to have been seriously shaken by the WE charity scandal related to the sole-source contribution agreement for the Canada Student Service Grant in 2020 (Angus Reid, 2020). If diminished trust is not a mere blip, we can expect donors to ask, and expect good assurances, about the governance, operations, and financial management of the charities they are considering for substantial support. In this scenario, Standards Program accreditation could become a primary means of such assurance, thus creating a new norm for giving.



Conclusion

Does the Standards Program strike the right balance? The tilt is toward rigour of the standards and of the process over flexibility and large numbers of participants. This is a necessary tilt, however. A mechanism that was simply an extension of the previous voluntary code – without self-study and peer review – would have been wholly inadequate in the current environment of heightened accountability. It simply would not be sufficiently credible with stakeholders and the public. The result of this tilt is that substantial work is required by charities and nonprofits to demonstrate they are meeting 73 standards; because of this, many are deterred. As a result, the numbers seeking accreditation will be a small fraction of the sector. The remarkable aspect of the Standards Program is that the majority of those accredited are small and medium-sized organizations, indicating that the rigour has not unduly limited access based strictly on capacity.

Contrary to the skepticism about self-regulation, the Standards Program seems to change behaviour and produce benefits for the accredited organizations. The benefits are not better fundraising, increased revenues, or growth predicted by accountability club theory or advertised by many certification bodies in other countries or other sectors; rather, the value lies in more constructive relationships between staff and the board, increased accountability of the board to itself, and enhanced organizational systems created by developing policies, documenting practices, and creating mechanisms for monitoring them. The Standards Program has also contributed expertise and built capacity in the sector through its community of practice that includes coaches and peer reviewers as well as accredited organizations. Over time, this injection of additional expertise should lead to raised norms and a growing interest in “doing the right thing” by becoming accredited. Both within organizations and across the sector this is a dynamic process that needs more exploration. From a research perspective, we need to “get out of the club” to more fully understand the dynamics of these incentives and relationships.

While the Standards Program appears to have an effect within the sector, its main limitation is that it is so poorly known beyond the sector. There is an urgent need for expanding awareness of the brand, so that stakeholders and donors understand its value and come to seek out accredited organizations. While numbers of participants are not the main measure of success, maintaining a critical mass is essential for the financial viability of the Standards Program. The sector cannot afford to have it fail.



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Notes

- ¹ Provincial attorneys general (which in Ontario includes the Office of the Public Guardian and Trustee) also have a role in the oversight of charities, but their regulatory involvement tends to be minimal (see Chapter 4 by Wyatt).
- ² The terms “certification” and “accreditation” are often used interchangeably, although there are differences, with accreditation generally regarded as the higher form. Certification is a third-party attestation of an organization’s (or individual’s) products, competencies, or quality, whereas accreditation involves self-assessment, demonstration of meeting recognized standards and third-party acceptance, and endorsement of an organization’s compliance with these standards. See [Council on Accreditation](#). We use certification in the more generic sense and accreditation as the process, and preferred term, of the Standards Program.
- ³ The three size categories (as revised for level 1 in 2018) are: level 1 (small) – 10 or fewer full-time employees (FTEs) and up to \$3 million in annual expenses; level 2 (medium) – up to 50 FTEs and up to \$10 million in annual expenses; and level 3 (large) – more than 50 FTEs and \$10 million in expenses.
- ⁴ The governance standards were originally developed by the Accountability Reference Group (ARG); the financial transparency and accountability standards and the fundraising standards were derived from the Ethical Fundraising and Financial Accountability Code; the staff management standards were derived from standards developed by the HR Council for the Voluntary and Non-Profit Sector; and the volunteer involvement standards were derived from Volunteer Canada’s Canadian Code for Volunteer Involvement.



Biography

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Christopher Dougherty is a PhD student in public policy at Carleton University, is a graduate of the MPNL program at Carleton, and is certified in Volunteer Administration. He has worked and volunteered in the charitable sector for 14 years, including as a volunteer peer reviewer for the Imagine Canada Standards Program. Current research projects focus on management practices in and between charities, including self-regulation, fundraising, and ties between charities and other sectors.

Cathy Barr is vice-president of research and strategic relationships at Imagine Canada. Previously, she was responsible for the creation and development of Imagine Canada’s Standards Program. Her research interests include the history of Canada’s charitable and nonprofit sector; the nature, evolution, and drivers of public opinion about charities and nonprofits; the determinants and measurement of organizational impact and success; and the relationship between the nonprofit sector and government.

