Intersections and Innovations

Change for Canada's Voluntary and Nonprofit Sector

Edited by

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The Muttart Foundation

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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.

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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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Chapter 1

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Chapter 2

Lasby, David and Barr, Cathy (2021) State of the Sector and Public Opinion about the Sector. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 3

Marshall, Dominique (2021) Four Keys to Make Sense of Traditions in the Nonprofit Sector in Canada: Historical Contexts. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 4

Wyatt, Bob (2021) It Should Have Been So Simple: The Regulation of Charities in Canada. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 5

Chan, Kathryn and Vander Vies, Josh (2021) The Evolution of the Legal Meaning of Charity in Canada: Trends and Challenges. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 6

Manwaring, Susan and Kairys, Katrina (2021) Regulating Business Activity. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 7

Phillips, Susan D., Dougherty, Christopher, and Barr, Cathy (2021) The Fine Balance of Nonprofit Sector Self-Regulation: Assessing Canada's Standards Program. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 8

Charters, Owen (2021) Board Governance in Practice. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 9

Grasse, Nathan and Lam, Marcus (2021) Financing Canadian Charities: The Conditional Benefits of Revenue Diversification. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 10

Hale, Sharilyn (2021) Giving and Fundraising Trends. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 11

Glogovac, Marina (2021) New Technologies and Fundraising. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 12

Fontan, Jean-Marc and Pearson, Hilary (2021) Philanthropy in Canada: The Role and Impact of Private Foundations. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 13

Khovrenkov, Iryna (2021) Canada's United Way Centraide as a Community Impact Funder: A Reinvention or a Failed Endeavour? In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 14

Harji, Karim and Hebb, Tessa (2021) Impact Investing in Canada: Notes from the Field. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 15

Raggo, Paloma (2021) Leadership in the Charitable Sector: A Canadian Approach? In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 16

Fredette, Christopher (2021) Planning for Succession in the Interests of Leadership Diversity: An Avenue for Enhancing Organizational Diversity, Inclusion, and Equity. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 17

Akingbola, Kunle and Toupin, Lynne (2021) Human Resource Management in the Canadian Nonprofit Sector. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 18

Uppal, Pamela and Febria, Monina (2021) Decent Work in the Nonprofit Sector. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 19

Thériault, Luc and Vaillancourt, Yves (2021) Working Conditions in the Nonprofit Sector and Paths to Improvement. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 20

Russell, Allison, Speevak, Paula, and Handy, Femida (2021) Volunteering: Global Trends in a Canadian Context. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 21

Shier, Micheal L. (2021) Social Innovation and the Nonprofit and Voluntary Sector in Canada. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 22

McCort, Kevin and Phillips, Susan D. (2021) Community Foundations in Canada: Survive, or Thrive? (with apologies to lawn bowlers). In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 23

Murphy, Colette (2021) Community Wealth Building: A Canadian Philanthropist's Perspective. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 24

Doberstein, Carey (2021) Collaboration: When to Do It and How to Do It Right. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 25

Munshi, Shereen and Levi, Elisa (2021) Indigenous Peoples, Communities, and the Canadian Charitable Sector. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 26

Stauch, James, Glover, Cathy, and Stevens, Kelli (2021) The Business–Community Interface: From "Giving Back" to "Sharing Value." In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 27

Laforest, Rachel (2021) Transforming Health and Social Services Delivery Systems in Canada: Implications for Government–Nonprofit Relations. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 28

White, Deena (2021) Contentious Collaboration: Third Sector Service Delivery in Quebec. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 29

Levasseur, Karine (2021) Policy Capacity: Building the Bricks and Mortar for Voluntary Sector Involvement in the Public Policy Process. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 30

Houston, Sandy (2021) Evolving Relationships with Government: Building Policy Capacity. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 31

Northcott, Allan (2021) Reflections on Teaching Public Policy Advocacy Skills. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 32

Lauzière, Marcel (2021) A Lever for Change: How Foundations Can Support Public Policy Advocacy. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 33

Ruff, Kate (2021) Social and Environmental Impact Measurement. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 34

Lenczer, Michael, Bourns, Jesse, and Lauriault, Tracey (2021) Big Data Won't Save Us: Fixing the Impact Evaluation Crisis. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 35

Herriman, Margaret (2021) Social Media and Charities in Canada. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 36

Riseboro, Caroline (2021) The Overhead Myth: The Limitation of Using Overheads as a Measure of Charity Performance. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

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Part I Introduction

Intersections and Innovations: Change in Canada's Voluntary and Nonprofit Sector

State of the Sector and Public Opinion about the Sector

Four Keys to Make Sense of Traditions in the Nonprofit Sector in Canada: Historical Contexts

The Muttart Foundation

Chapter 1

Intersections and Innovations: Change in Canada's Voluntary and Nonprofit Sector

Susan D. Phillips, Carleton University
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The lives of Canadian citizens and communities are enriched by the work of charities and nonprofits. They provide summer camp and minor hockey for our kids, university and college education, healthcare research, hospice and home care, arts of all kinds, places of worship, and more. We govern our condo boards, regulate our professions, support our neighbourhoods, and advocate for policy change through nonprofits. Volunteering, participating, and giving enhance our personal well-being (Aknin et al., 2019; Haski-Leventhal et al., 2020; Wilson et al., 2020) and can contribute to more inclusive, more resilient communities (Walzer, 1990; Warren, 2011). In addition to its importance to the social and cultural fabric of Canadian communities, this sector is a major employer, accounting for one in 10 full-time jobs (CanadaHelps, 2020).

The defining characteristic of Canada's nonprofit sector over the next decade is change – change brought about by demographics, economics, technology, and the global pandemic. The need to adapt to change and to innovate was already in motion before COVID-19 turned the world upside down. The global pandemic has accelerated and amplified the necessity and scale of that change. Indeed, its disastrous effects on the sector will require fundamental rethinking and possible "reinvention" of many aspects of the nonprofit sector and public policies that affect it. Such reinvention will depend on knowledge and a deep understanding of the pre-existing challenges and vulnerabilities as well as the bases of resilience and innovation. Executive directors (EDs) and other sector leaders and professionals, philanthropists, policy-makers, and the public will need to know what was ailing and what was particularly vigorous about the sector in order to direct change in the right ways. But they are faced with a peculiarly Canadian challenge. Research about Canada's nonprofit sector has been under-developed and fragmented. We tend to import studies and evidence, mainly from the US, where research is much more robust, and hope it translates into relevant practice and policy in our own country. Sometimes it fits well, sometimes not.

Our aim with this resource is to fill that gap. This collection is the first comprehensive "book" focused on Canadian charities and nonprofits. It provides an evidence-based analysis of the institutions and operations of Canada's nonprofit and philanthropic sector, identifying strengths and issues for professionals, policy-makers, and students to deepen their knowledge, inform their work, and provoke new conversations. Drawing on both theory and practice, it identifies some of the risks and opportunities that lie ahead and options for addressing them. A second aim is to draw together the fragmented research, demonstrating that there is a Canadian nonprofit and philanthropy research community. But we need to scale this community and engage researchers in academic settings with practitioners and thought leaders from the sector (Barr, 2020), as we do in this volume.

The chapters are evidence-based, rather than prescriptive. The authors were encouraged to engage with existing literature as well as practice, present alternative views regarding the issues, and, as relevant, consider differences across subsectors and in different parts of the country. The contributors were also prompted to offer ways forward for the sector in addressing the tough challenges that are the focus of this collection.

A third goal is to set this work "in motion" by making it accessible, not as an expensive purchase or hidden behind a paywall. The Muttart Foundation has supported the creation of this collection in every way, including an authors' workshop early in the process to brainstorm and connect ideas, the copyediting and production process, and making the chapters accessible online at no cost. The additional advantage of the online format is that chapters can be updated and new ones added with ease, rather than waiting for a new "edition" every few years.

The 52 authors, who include emerging and established scholars and sector leaders, of the 36 chapters need to be congratulated for engaging in this Canadian first. For academics, there is greater career reward for publishing in traditional peer-reviewed journals or with high-profile university presses than in an accessible "people's" collection such as this. For sector professionals, writing is often a luxury that involves stealing time from their leadership responsibilities. Still, both readily took up the invitation, volunteering their time and expertise, to join us in this experiment. We thank them for their commitment to building a more robust Canadian research community, informed by and relevant to professional practice and policy. The project also benefited greatly from the guidance and chapter reviews of a national advisory committee comprising Cathy Barr, Marina Glogovac, Sharilyn Hale, Allan Northcott, Lynne Toupin, and Andrew Walker.

While change is the theme of this resource, it is also the ultimate goal – to help sector professionals, policy-makers, and students as aspiring professionals to better assess, adapt, and innovate in a wildly changing context.

The "Sector"

What constitutes this "sector"? What should we call it? Is it a sector at all? These questions have long been debated and still often serve as the entry point for discussions on this topic. And discussions often get stalled by an inability to adequately answer them, or simply by going in circles around them. In order to move on to deeper analyses, we have chosen quite simple, direct answers – answers that many readers may find are not fully satisfactory.

What Is the "Sector"?

By "sector," we mean the 86,000 registered charities and roughly equivalent number of nonprofits across Canada. "Charities" must have a charitable purpose under common law, which specifies four "heads" or broad purposes: advancement of education, advancement of religion, relief of poverty, and other purposes beneficial to community. In order to be tax-exempt and offer tax-deductible receipts for donations, qualifying organizations need to be registered by the Charities Directorate of the Canada Revenue Agency (CRA), which limits partisan political and some business activities and creates obligations of annual reporting (through the T3010 form). As defined under the Income Tax Act (ITA), the broad category of "registered charity" is divided into three types: charitable organizations (mainly operating charities, about 75,000), public foundations (about 5,000), and private foundations (about 6,000) (PFC, 2020a). In Canadian legal terms, nonprofits are not-for-profit clubs, societies, or associations that are not charitable: while tax-exempt, they cannot offer receipts for donations and have minimal reporting requirements. Like charities, this is a diverse group, including recreation clubs, advocacy organizations, and industry and professional associations. Because they have so few public reporting requirements, little is known about them, including how many there actually are. If we were writing about a US context, we would refer to both simply as "nonprofits," but here we will use the more specific Canadian terminology, particularly when referring to data or to regulations.

While these are supplemented by hundreds of thousands of grassroots, community-based, informal organizations whose contribution to society is vitally important, our focus is primarily on formal, incorporated organizations. We also acknowledge the rise of "social enterprise" – a societal benefit mission combined with revenue generation through commercial activities – conducted by nonprofits, charities, and social-purpose business (and by hybrids in the provinces where legislation has facilitated such legal structures). Given that most social entrepreneurial activity is conducted by nonprofits and charities, it falls within our view of this sector.

What to Call This Sector?

We can be a bit envious of Americans for whom there would be a ready answer: "nonprofit." Canadians are less decided. While "charitable" aligns with the legal terminology for a big subset of these organizations, the notion of charity is too narrow – indeed is offensive to many whose missions are change-oriented. When Canadian research "discovered" this sector about 20 years ago, the favoured language was at first "voluntary." For example, the 1999 *Broadbent Report*, commissioned by sector leaders to generate a policy blueprint, explained that "voluntary" was preferred because it reflects the sector's "essential spirit" (PAGVS, 1999). The first, and still only, national survey of the organizations that comprise this sector, *Cornerstones of Community* (Hall et al., 2005), explicitly used "nonprofit and voluntary" to signal inclusion of its large, professional institutions. So as to avoid defining the sector by what it is not (not-for-profit, nongovernmental, nonprofit), more recently people have been inventive with notions such as "public benefit," "social purpose," and "social impact" sector. Our aim is not to get unduly hung up on language. The title of the collection (voluntary and nonprofit) intends to provide a big, inclusive umbrella. The authors of individual chapters have adopted their own preferred terminology when speaking of this sector generally, and "charity" and "nonprofit" when referring to the legal categories.

Is It a Sector?

This question centres on the diversity of the sector, and whether this diversity enables it to claim any coherence and behave with common interests. This diversity is impressive and a core strength. Missions include faith (the largest in number), social services, health, education, sports, arts and culture, environmental, international and advocacy, as well as quasi-business nonprofits. There is also great divergence in organizational size: 1% of organizations account for 80% of total revenues, while the vast majority operate with limited budgets and few or no staff. It is not surprising, then, that it may be challenging to act in a coordinated manner. But neither does business, and neither is coordination the defining characteristic. Rather, a combination of four key roles differentiate the nonprofit from the private or public sectors.

Voluntary/nonprofit organizations are a means of forming and giving expression to shared identities and community values, which builds social capital and forms the basis for collective action (Frumkin, 2002). Although the literature has focused on social and cultural movements as the basis for collective identities, this expressive role is not limited to what we usually think of as "identity politics." Rather, it includes expression through faith, cultural heritage, or neighbourhood. A second role is in promoting stronger citizenship. In working together to govern and participate in associations on a voluntary basis, people need to discuss, work out differences, make compromises, and exercise leadership, which can make us better citizens and create a more inclusive society (Phillips, 2011). Third, the sector contributes to a pluralist, engaged democracy: through voluntary organizations, marginalized communities can gain a voice, new ideas are introduced, and policies are influenced (Jenson, 2019). The fourth, and most familiar, role is provision of services, whether as quasi-governmental institutions like hospitals and universities and colleges, on government contracts, or independently supported by philanthropy or social enterprise.

These potential roles often take on a normative caste, or at least are often seen through rose-coloured glasses: that the sector is entirely well-intentioned and compassionate, its employees and volunteers passionate about their work, and the outcomes of their work positive. We do not make such assumptions. Although nonprofits have the potential to produce more responsible citizens and inclusive communities, contribute to better public policy, and deliver effective services, whether they actually do so is an empirical question. The actual achievement of this potential needs to be examined, tested, and explained. This is the spirit of this collection: rather than assuming positive outcomes, the authors dig into investigation of shortcomings as well as strengths.

We can also answer "yes" to the "is it a sector" question on the basis of a set of common issues that are quite different from its private and public counterparts: governance through volunteer boards, means of financing, volunteer and employee management, collaboration, and regulation, among others. The need to better appreciate these features is the rationale for and focus of this collection.

In order to concentrate on these roles and issues, we will not continue circling the usual "sector" questions. There is a fourth question, however, that motivates this collection: is the Canadian nonprofit and voluntary sector distinctive from those of other countries, to the extent that we need a Canadian-specific body of research?

Is the Canadian Sector Distinctive?

Certainly, there are many similarities between Canada's sector and those of the US, the UK, Australia, or other "liberal" welfare states. They share mission diversity, with faith as the largest subsector by number of organizations; bifurcation by size; a mix of financing from governments, donations, and earned income; fairly robust – albeit declining – levels of giving and volunteering; and a dependence on public trust. These similarities tend to be presumed, however, not based on solid, comparative data. To advance research about and for the sector, we need to better understand the specifics of the Canadian context. David Lasby and Cathy Barr (Imagine Canada) provide these specifics, as well as an introduction to Canadian data sources for charities and for nonprofits. A conclusion that will echo throughout the other chapters is the need for better Canadian data, particularly on nonprofits, as well as on giving and volunteering.

Canada is also different from its "sister" countries in some important ways. Differing legacies of history and the evolution of government–sector relationships in Quebec means that there is no "Canadian" sector, but rather two quite different models. In addition, a strong network of place-based philanthropic institutions, in the form of community foundations and United Ways, has given rise to more subtle differences across Canadian cities and regions. Indigenous nations and peoples are challenging settler worldviews and approaches to organizing, and reconciliation has become a central issue for society. Racial and cultural diversity, particularly of our largest cities, is impelling more meaningful inclusion in the sector. While diversity and inclusion are important elsewhere, it is important to understand the specific concerns of a Canadian context. Importantly, how governments regulate and create policy frameworks for the sector, particularly charities, creates a distinctive set of issues. All these particular features are taken up in the papers in this resource, starting with the current effects of historical legacies.

In important ways, contemporary civil society bears the footprints of the past, but Canadians have not explored that history well at all. Again, we might look with envy to our southern neighbour. Americans regularly call upon the galvanizing account of Alexis de Tocqueville (1838), the French philosopher and diplomat who, during his visit in the early 1800s, marvelled at a nation of "joiners" and reflected on the value of civil-society associations to democracy. This historical account is still used to animate contemporary US conversations about the value of a strong nonprofit sector. While de Tocqueville made a brief visit to (Lower) Canada, his accounts were less stirring, observing the conviviality of the French people but also their inequality to the English and the strength of state over civic institutions (Curtis, 2006).

In the interests of better appreciating some of the footprints of this past, we recruited historian Dominique Marshall (Carleton University) to this project. While recognizing the success of Indigenous peoples in managing flourishing societies long before European settlement, her chapter examines the implications of four key elements of colonial history that have left their mark on the development of Canadian voluntary organizations: European kingdoms; the aristocratic structures and values associated with them; religious institutions; and business, particularly early corporate philanthropy. The legacy has been the presence of a relatively strong public sector and trust in public institutions, distinctive notions of "charity" and the responsibilities associated with charity, but also the emergence of broadly based change-oriented coalitions and the scope for nonprofits to act as "pioneers in fields not yet accepted as state responsibility."

More than an exercise in looking back, such histories serve as a basis for appreciating current institutions, narratives, and practices, and for advancing the reforms needed at this historical moment of change.

Unprecedented: Converging Moments of Change

"Unprecedented" has become the buzzword of our time, justifiably so. Canada's society and economy are facing the most significant moment of change in the lifetimes of most of us. COVID-19 is levelling a devastating blow to Canada's voluntary and nonprofit sector, as it is to sectors elsewhere. The projected impacts are difficult to fathom: one in five charities is likely to close permanently (Lasby, 2020; ONN and Assemblée de la francophonie de l'Ontario, 2020), and sustainable financing for many others will be jeopardized if charitable giving is suppressed for years as families recover economically. More positively, the informal movement of "caremongering" that began early in the pandemic may continue to mobilize people to volunteer in large numbers. The historic moment is not only the result of COVID-19, however, but its convergence with the movement for racial justice. The sector and our society are finally beginning to take seriously the need to address inclusion in meaningful ways and better facilitate the work of organizations that are led by and serve Indigenous, Black and other racialized people.

Most of the chapters in this collection were written before COVID-19 took the sector into unprecedented territory of change on a massive scale. Nevertheless, the issues they grapple with are as present as ever, and analyses of them help explain the potential and lay the groundwork for recovery and reinvention. Their recommendations for change are more relevant than ever. The first group of chapters focuses on navigating the changing landscapes of regulation and accountability, financing, and people.

Accountability and the Policy and Regulatory Environment

Nonprofits rely on public confidence and trust – for members, volunteers, donations, and government contracts. As Lasby and Barr show, Canadians generally trust charities – at least they did in 2013 when the last round of public opinion data were collected by the Muttart Foundation. A recent international study found that, contrary to popular media reporting, there is no global crisis of trust in nonprofits. Rather, overall trust in the sector has increased slightly (Chapman, Hornsey, & Gillespie, 2020). The 2020 WE Charity controversy – in which the celebrity charity founded by the Kielburger brothers was fast-tracked to deliver a $543-million government program to pay students for volunteering – appears to have shaken confidence in the sector, however. For a majority of donors, the complexity of the charities and for-profits that were part of the WE conglomerate, and their lack of transparency, raised questions about governance and financial management for the whole of the sector (Angus Reid, 2020). It is not yet clear if this reduction in confidence is a short-term blip or will have longer-term effects on overall trust in charities, but we can expect greater scrutiny of governance practices and accountability measures.

Public accountability is achieved through complementary means – state regulation, sector self-regulation, and boards of directors. Each of these has been under pressure to be more effective in recent years. In terms of state regulation, Canada performs a rather delicate dance. Constitutionally, power over civil matters rests with the provinces, although they have chosen not to actively exercise these powers, leaving the federal government as the de facto regulator under the provisions of the ITA and drawing on common law. The Department of Finance controls the ITA as the policy setter, and the Charities Directorate of the CRA administers the act, making it the primary regulator of charities. The dance is further complicated given that the ITA does not define charitable purposes or activities, requiring interpretation of the common law through judicial review and administrative guidance. As a result, Canada has a narrower interpretation of the legal meaning of "charity" than the UK, US, or other common-law countries. For at least 20 years, there have been calls for reform of this regulatory regime, including quite dramatic proposals to replace the tax agency with an independent commission as in the UK and Australia; introduce a legislative definition of charity, or at least expand the types of nonprofits that can be considered "qualified donees" (and thus able to receive grants from foundations); and loosen restrictions on business activities (Special Senate Committee, 2019). If sector leaders are to effectively advocate for a more enabling regulatory environment, they need to understand the fundamentals of our system and assess carefully the better routes to reform.

Bob Wyatt (Muttart Foundation) proposes a regulatory reform agenda, critically assessing the shortcomings and strengths of the current system. He argues that some change is necessary, notably making it much easier for organizations to appeal a refusal of registration by the CRA, but overall he gives the system a good grade compared to England or the US, where charity regulators have experienced dramatic funding cuts and been subject to politicization that has undermined their credibility. The complementary paper by Kathryn Chan (University of Victoria) and Josh Vander Vies (Versus Law) explains why the Canadian view on charity has been "frozen" due to a limited role of the courts, and how to thaw it.

In an environment in which government funding is under pressure and fundraising may be depressed for years, charities and nonprofits have to be creative in seeking new sources of revenue, often turning to business-like activities. Whether and what types of business are allowed under the CRA rules, however, is ambiguous, confusing, and restrictive. Susan Manwaring and Katrina Kairys (Miller Thomson LLP) walk us through the CRA guidance on business activities, showing the challenges it creates for registered charities and how a differing set of rules is even more limiting for nonprofits. Manwaring and Kairys make a strong case for reform, specifically for adopting a "destination of funds" test, as Australia and New Zealand have done.

Canada stands out for supplementing government regulation with a mechanism of sector self-regulation, Imagine Canada's Standards Program – one of the most rigorous voluntary accreditation systems for charities and nonprofits in the world. The Standards Program involves self- and peer-assessment of 73 standards related to governance, finances, and management. What will it take to make the Standards Program really work? Does it have the right balance of rigour and ease of participation? Susan Phillips, Christopher Dougherty (Carleton University), and Cathy Barr (Imagine Canada) provide some answers.

No matter the requirements of state or sector self-regulation, public accountability begins at home, with boards of directors. Owen Charters (Boys and Girls Clubs of Canada) recounts having to explain to his child that, even as a nonprofit ED, he wasn't actually the "boss" but had to answer to a bunch of bosses called his "board." The chapter provides valuable practical insights into the essentials of director responsibilities and due diligence, and tips on how, as an ED, to care for and water your board.

The Funding Environment

As any nonprofit ED or fundraiser can attest, the funding environment has been shifting for some time – in both positive and destructive ways. On the downside, charitable giving has been stagnant for a decade: both the number of people who give and the size of the average donation has declined (CanadaHelps, 2020; Lasby & Barr, 2018). In particular, "high net worth" (HNW) households are not contributing in amounts that reflect their capacity to do so. As a result, giving is increasingly concentrated among a smaller, older cohort. While the millennials (born between 1980 and 2000) are active donors (and volunteers), they give in fairly small amounts and as a cohort have not replaced – and may never replace – their baby boomer grandparents.

The more positive outlook notes an impending intergenerational transfer of wealth, estimated to be between $800 billion and $1 trillion in (hard and financial) assets over the next 10 years (Investor Economics, 2019), some of which is likely to be passed on to charities. Indeed, many ultra-wealthy people are modelling giving and speeding up this transfer by joining the movement of "giving while living." In addition, women have become an even more powerful force in philanthropy as they acquire their own sources of wealth, and as they tend to support more change-oriented causes (TD Bank & Investor Economics 2016,). The diversity of Canada's ethnocultural communities is an important component of philanthropy, as these communities give more, not only within their own communities but to society-wide causes, than the population average (Mehta & Johnson, 2011). These communities tend to be under-engaged, however, because many fundraisers do not appreciate how to work with them. Sharilyn Hale (Watermark Philanthropic Counsel) explores these trends in giving, and their implications for the fundraising profession as well as for fundraising by nonprofits.

A related development is the rapid growth of online fundraising and crowdfunding in Canada and the adoption of other technologies, such as AI and blockchain, that are altering, and "disrupting," the work of nonprofits. Will such technologies democratize giving by making it more accessible and scalable? In an analysis of the impact of technology on philanthropy, Marina Glogovac (CanadaHelps) argues that this democratization hypothesis needs to be tempered. Access to technology must be paired with expertise, and the ability to procure talent with technological knowledge will be one of the sector's biggest issues.

The funding environment is being further reshaped by social finance tools and impact investing, by which investors seek both a social and a financial return. The expectations for impact investing have been wildly enthusiastic, perhaps unrealistically so, that it will bring billions of private capital into the sector. Given that earned income from business-related activities has been the only growing source of revenue for most nonprofits, social finance tools may better support such entrepreneurship. However, there is still much work to be done to build the demand-side of uptake by nonprofits (Phillips & Johnson, 2019; Jog, 2020). Karim Harji (University of Oxford) and Tessa Hebb (Carleton University) put aside the cheerleading that often accompanies discussions of impact investing to identify a series of tensions and questions for the sector. While noting that there has been substantial growth in the amount of capital mobilized and number of organizations involved, including by the federal government's $755 million Social Finance Fund launched in 2018, they argue that this has not yet been transformative in practice or in public policy. It will be imperative for the sector, they suggest, to retain a focus on "impact" relative to "investing" as this market matures.

Institutional philanthropy – private and public foundations – are both agents of change and being changed by these giving trends. Private foundations, created by families or by corporations, have become a much more important part of the philanthropic landscape in recent years. The number of private foundations has risen steadily, to about 6,000. Most family foundations are small, lacking professional staff, but collectively private foundations hold almost $50 billion in assets (PFC, 2020a), capable of having a major impact if their resources are deployed strategically. Canadian foundations have only recently begun to more fully exercise their muscle, professionalizing, collaborating, and grantmaking for societal change rather than settling for comfortable causes. But the social licence of private foundations – which have been created by tax-subsidized private wealth and are the most autonomous institutions in our society – is also being called into question. Critiques wafting north from the US claim that foundations are elitist and out of touch with community and that they reflect and perpetrate income inequality (Giridharadas, 2018; Villanueva, 2018). While taking such concerns seriously, we should not assume that institutional philanthropy in Canada mirrors that of the US. Hilary Pearson (formerly of Philanthropic Foundations Canada) and Jean-Marc Fontan (Université du Québec à Montréal) provide a Canadian perspective, illustrating the strengths and limitations of private foundations, and indicating the growing interest of many in supporting systems change.

As one of the largest non-governmental funders of community-based nonprofits, United Ways are an important part of the philanthropic landscape. But there is a perception that their position has become more precarious over the past decade as giving declines, donors cut out intermediaries, and annual campaigns become more expensive. United Ways were early adopters of a "community impact" model in which they shifted funding from historic member agencies to organizations demonstrating measurable outcomes. How serious is the decline of United Ways in Canada, and what has been the impact of community impact? Iryna Khovrenkov (University of

Regina) analyzes giving to and granting by Canadian United Ways over 15 years. For the top 10 United Ways, tax-receipted donations rose until 2007, then declined, levelled, and declined, while smaller United Ways have experienced a consistent decline since 2002. The analysis indicates that United Ways are at a crossroads and opens a discussion on paths forward.

What is the best strategy for financial health for nonprofits in the face of such changes in the funding environment? The prevailing wisdom is to diversify revenue sources, but the data do not entirely support such advice. Taking a closer look, based on the T3010 data, Nathan Grasse (Carleton University) and Marcus Lam (University of San Diego) find that maximizing financial diversification does not benefit the financial health of nonprofits in the short- or long-term. Rather, they find a nonlinear relationship, suggesting that there are tipping points at which too much diversification produces vulnerability and that the trick is to find the "Goldilocks" middle. Such advice will become even more valuable as nonprofits struggle to recover and rebuild from the financial effects of COVID-19.

The pandemic threw a proverbial grenade into this already turbulent funding context, although with differing effects on subsectors. Arts, cultural, sports, and other nonprofits that rely on ticket sales from events and fundraising from fun-runs and other crowd events were hit particularly hard as venues closed and people were required to stay away. About 70% of charities and nonprofits suffered revenue losses, on average a drop of about 30%, and about 30% had to lay off staff, although many intend to rehire when possible (Lasby, 2020; ONN and Assemblée de la francophonie de l'Ontario, 2020; SaskNonprofit, 2020). Those providing essential services – particularly health, social services, food security, and housing – saw a sharp increase in demand, also creating financial strain. Government supports have been important, including wage subsidies for workers; a $350-million support fund for the most vulnerable communities administered by community foundations, United Ways, and the Canadian Red Cross; and a fund to support arts and sports organizations, among other measures. Donation patterns of individuals have been mixed; about half made no change, about a third gave less than before, and the small slice of "super" donors have been giving substantially more (Angus Reid, 2020). Foundations and donor-advised funds (DAFs) have also stepped up, giving well above the mandatory 3.5% annual disbursement and, following an initial emergency response to fund faster and more flexibly in health and social services, have begun to assess how to support systems change and racial justice (PFC, 2020b).

It is too early to predict how philanthropy will respond in the years to come. What has become apparent as the pandemic plays out, however, is that the wealthy are becoming wealthier: they were not displaced economically, markets have rebounded, and luxury consumption has been suspended, leaving more cash at hand. This presents an opportunity for nonprofits and fundraisers to reverse the under-performance of HNW households.

While the current situation may be dire for many nonprofits, COVID-19 merely reinforces the analysis of these chapters: the need to reach HNW households and tailor fundraising for ethnocultural communities, develop a more nuanced understanding of the value of diversification of funding sources, procure talent with knowledge in new technologies, adapt to a growing impact-investing market, and continue professionalization and innovation by institutional philanthropy.

The People Environment

The nonprofit sector has a growing "people problem." Mission-driven, hard-working, and generous people who work, volunteer, lead, and donate are the sector's greatest strength, and will continue to be. The issues are not the motivations, quality, or commitment of its people, but the effects of changing demographics creating an impending challenge of leadership succession, a diverse population that has been poorly engaged in the sector, the extent of precarious work, and new patterns of volunteering.

The challenge for analysis is the poverty of data. The HR Council for the Voluntary & Non-Profit Sector, initially funded through the federal government's program that provides labour-market and related information for many sectors of the economy, was disbanded in 2013, leaving a big information gap (HR Council, 2013). Nevertheless, some trends are very apparent.

First, the leadership cadre is nearing or beyond normal retirement age. If we extrapolated the findings of a 2013 study of Ontario EDs to 2020 (McIsaac, Park, & Toupin, 2013), 41% of nonprofit leaders would now be 62 or older. Yet few nonprofits have been developing the talent pipeline or actively planning succession. The leadership styles and skills that will be needed as the sector reinvents itself post-pandemic – more adept at collaboration, innovation, policy engagement, data use, and technology – will be different than those that made retiring EDs successful. Millennials, the largest, most diverse generation in history, already comprise 50% of the labour market; 28% are already in management positions (Link, 2018). Like the Gen Zs that follow them, they value – in addition to appropriate compensation – authenticity and meaningful work, networks and collaboration, and inclusive environments, and will not stay in positions for the sake of loyalty to the organization or for security. Are nonprofits ready for them as managers, volunteers, and leaders? Paloma Raggo (Carleton University) guides us through these and other leadership issues for the next decade. Discussing leadership from both a theoretical and applied approach, Raggo reminds us that being a "leader" is more than a title, and that people, context, and organizations matter in shaping what leadership is and who leaders are.

Second, getting serious about inclusion is not a "nice to do," but a "must do." With the competition for leaders that lies ahead, diversity and real inclusion in nonprofit leadership are not just a matter of fairness of opportunity; they are behaviours and outcomes essential to being competitive for talent and successful in achieving missions. It is also core to one of the biggest imperatives facing our society: achieving racial and social justice. As much as we talk about the value of diversity and inclusion in the sector, in general nonprofits have been woefully inadequate at being inclusive in their staff or boards of directors. Although data are limited, one estimate is that only 12% of those in leadership positions are from racialized groups (Cukier, 2018), and 33% of nonprofit boards have no racialized members (Meinhard, Faridi, O'Connor, & Randhawa, 2011). Christopher Fredette (University of Windsor) argues that we should conceive of leadership succession not simply as a system of talent replacement, but as an opportunity for organizations "to bring to life a process of values renewal," building on the pillars of diversity, equity, and inclusion. Fredette's chapter outlines in practical ways how, at each stage in the process, to view succession through the lens of diversity and inclusion, and to view diversity and inclusion through the lens of succession planning.

Looking beyond succession planning to strategic human resource (HR) management more generally, Kunle Akingbola (Lakehead University) and Lynne Toupin (Interlocus Group) discuss how nonprofits must align HR practices with organizational mission and values, with unique contexts such as volunteers and stakeholders, and with external factors.

Implementing a decent-work agenda (and a work/volunteer and fundraising environment free of harassment) is a third challenge in a sector whose workforce is 75% female. While executive staff in many nonprofits, particularly large health organizations (Charity Village, 2019), are compensated competitively, much of the sector has long relied on a "passion bonus" – the supposition that low pay can be subsidized by the value of doing "good" work. Women, particularly immigrant and racialized women, are disproportionately engaged in precarious work that involves low pay, few benefits or pensions, and unstable short-term contracts, often in various forms of caregiving. While precarious work is a long-standing issue, COVID-19 has pulled back the curtain on its consequences, particularly in long-term-care homes, demonstrating the need to reinvent care work. As Luc Thériault (University of New Brunswick) and Yves Vaillancourt (Université du Québec à Montréal) flatly state, "it's not a pretty picture." They examine how Canada got to a situation of relying on precarious work; analyze the problems of limited benefits, low rates of unionization, and inadequate workplace health and safety; and assess the opportunities, including missed opportunities, for implementing sector-wide pension plans. A movement to advance a decent-work agenda has been underway in Canada for several years, led by the Ontario Nonprofit Network (ONN). Pamela Uppal and Monina Febria outline the components of such an agenda and the barriers to success on it, drawing on their experience with ONN.

Finally, volunteers are as important to the human capital of this sector as its paid employees, but demographics and technologies are significantly changing patterns of volunteering. Formal volunteering through organizations is still strong: 12.7 million (about one in three) Canadians reported volunteering on the latest national survey (Hahmann, du Plessis, & Fournier-Savard, 2020). But volunteering is increasingly concentrated among a smaller cohort. The rising modes of volunteering are more episodic, informal, and virtual. This raises the questions of who, under what circumstances, is a volunteer? When the Trudeau government awarded the contract for the Canada Student Service Grant to WE Charity in the summer of 2020, which would have paid students to "volunteer," it set off a firestorm of discussion about volunteering, as well as myriad other issues about the process and WE Charity.

Paula Speevak (Volunteer Canada) and Allison Russell and Femida Handy (University of Pennsylvania) examine the social, practical, and policy implications of the evolving nature of volunteering. They encourage us to think about what makes it easy for some people to volunteer and hard for others, and the policy implications of these differences. Research has clearly demonstrated that volunteering has a positive benefit for people (e.g. acquiring new skills and contacts for advancement in the labour market, broader social networks, personal satisfaction, enhanced health and well-being). If a societal goal is to reduce inequality, should public policies more effectively promote volunteerism and assist nonprofits in providing positive volunteer experiences, particularly for marginalized groups? The Special Senate Committee on the Charitable Sector (2019) thought so, recommending that the federal government "develop and implement a national volunteer strategy to encourage volunteerism by all Canadians." With the rise of an informal "caremongering" movement and the expressed enthusiasm of young people to "do something to help" during the pandemic, governments and nonprofits have new opportunities to be creative in how they build upon this momentum.

Intersections and Innovations

The collection centres on the twin sub-themes of intersections and innovations, as both drivers and manifestations of change. The notion of "intersections" acknowledges the autonomy and distinctiveness of the sector but also its interdependence with the public and private sectors, and the engagement of nonprofits with members, volunteers, funders, stakeholders, and citizens. The related theme of "innovations" recognizes that this sector is not simply responding to an environment demanding change, but is anticipating and leading change, in the process reshaping the environments in which nonprofits work.

Although this collection uses the concept of "innovation" in an expansive way, for much of the nonprofit world, it has come to mean "social innovation," which has become a mantra for change. Social innovation centres and hubs for incubating start-ups have sprung up across the country, weaving themselves into a "community" or "ecosystem" for change. From 2008 to 2018, the J.W. McConnell Family Foundation, in collaboration with MaRS, the Plan Institute, and the University of Waterloo, supported an initiative known as "SIG – Social Innovation Generation," including a certificate in social innovation. When the federal government launched its program to stimulate social finance in 2018, social innovation was married to the means, as reflected in its name – the Social Innovation and Social Finance Strategy. In spite of its popularity, however, social innovation often means different things to different people. Micheal Shier (University of Toronto) kicks off this discussion by clarifying the terminology and types of innovation and setting out the conditions for innovation.

Community and Corporate Intersections

Contexts affect innovation, and these contexts are explored through several chapters that seek to understand how community relationships and cross-sector intersections are changing, and what kinds of innovations may result.

Place Matters

Nonprofits are rooted in communities – be they geographic, cultural, or social. These contexts are changing in several ways. First, there is a renewal of place, as a concept for analyzing the sector and as a more important reality for its work. Our hunch, not yet supported by data, is that nonprofits and philanthropy are becoming more differentiated by city or region. Community foundations are more active leaders in some places than others. The private foundations in Montreal are different than those of Toronto or Calgary (Lefèvre & Elson, 2020). Work from the UK that maps the location of charities has clearly demonstrated an abundance of organizations in some places and the existence of "charity deserts" in others (Mohan, 2015); the pandemic is likely to further hollow out services in some neighbourhoods and communities more than others. Rural communities, with aging populations and limited infrastructure, face very different realities than urban settings. No matter the number of organizations, nonprofits collaborate with each other more effectively in some centres than others. Therefore, as much as we want to present a pan-Canadian view of the nonprofit sector, we need to take place seriously, which we can do only in limited ways in this collection.

Community foundations are a key – and distinctive – part of the place-based philanthropic and leadership infrastructure. Unlike most private foundations, they need to raise funds from the community on an annual basis, as do United Ways, and, increasingly, need to compete with financial institutions for DAF (donor-advised fund) assets. Visibility and donor service matter in order to generate funds for local grantmaking. Beyond being good grantmakers, community foundations have been admonished to be more fully engaged in community leadership (Bernholz, Fulton, & Kasper, 2005). Kevin McCort (Vancouver Foundation) and Susan Phillips (Carleton University) investigate how well Canadian community foundations are doing in such leadership roles, making a case that they need to do more and offering insights as to how they might do so.

The rise of the "community wealth building" movement has provided additional tools, notably community benefit agreements (CBAs) and social procurement, aimed at sharing the economic advantages of infrastructure and other development more equitably. While CBAs have been used in the UK and US, often in association with private developers, the adoption in the Canadian model has mainly incorporated them into public projects such as Vancouver's Olympic Village and Toronto's Eglinton Crosstown LRT. Indeed, in 2015, the Ontario government was the first in North America to pass legislation including CBAs in major public infrastructure projects. Collette Murphy (Atkinson Foundation) reviews the lessons learned from their foundation's collaboration in securing the Crosstown CBA and how several provinces have taken action to promote purchasing from community-based organizations.

If the past decade was the information revolution, the 2020s have been widely proclaimed to be the collaboration revolution. The recognized advantages of collaboration are by no means new (Gazley & Guo, 2020; Crosby & Bryson, 2007; Huxham & Vangen, 2004), but many nonprofits still struggle to know when collaboration is the right route, and how to make it successful. Carey Doberstein (University of British Columbia) uses two cases of nonprofits that serve the homeless in Calgary to assess the risks and rewards of collaboration, pointing to clarity of purpose, cultivation of trust, and willingness of participants to adjust and change long-established practices.

More than Place

Place is important, but not all communities define themselves by place; some define themselves by other social and cultural identities. Giving expression to shared values, identities, and interests, and encouraging collective action on this basis, is a fundamental role of civil society organizations. Canadian research on philanthropy and nonprofits in racial, ethnocultural, and minority communities is limited: it is perhaps the most serious gap in what research can provide to professional practice and public policy. As part of the social movement and queer literatures, LGBTQ activism has received considerable attention (McKenzie, 2020; Smith, 2015), but there has been little work on organizations mandated for, serving, or led by racialized communities.

In the field of immigrant settlement services, where ethno-specific groups not only provide specialized services to their communities but are also sources of volunteer experience, employment, and advocacy for newcomers, research has shown that they are often under-funded (Sadiq, 2004). Service contracts with governments often put them in the position of being sub-contractors to "mainstream" multiservice organizations, and thus less able to be client-centred or community advocates (Bushell & Shields, 2018). Indeed, in a study of the density of "visible minority" organizations relative to population and to total number of charities in Canada's four largest cities, Meinhard and colleagues (2011) were surprised that there were so few ethno-specific organizations and that there are fewer (relative to the total number of charities) in the two most ethnically diverse cities – Toronto and Montreal – than in Calgary. One reason is likely a serious lack of funding. A study conducted for the Foundation for Black Communities (Pereira, Abokor, Ahmad, & Abdikkarim, 2020) shows that support by private and community foundations for Black-serving and Black-led organizations is miniscule: about 1% of total foundation grants went to Black-serving organizations in 2017 and 2018; even less went to Black-led organizations. Not only are the funding amounts tiny, but foundation grant funding is "sporadic, unsustained, and does not invest in the long-term capabilities of Black community organizations" (Pereira et al., 2020: 3). In contrast – and contrary to conventional belief – giving and participation by racialized and ethnocultural communities appears to be higher than the general population. Although research is scanty, several studies (Mehta & Johnson, 2011; Mata & McRae, 2000) show that foreign-born citizens give in greater amounts and generally to the same types of causes as do Canadian-born citizens. Similarly, volunteering by immigrant communities is an important part of integration into Canadian society, and it increases over time (Wang & Handy, 2014; Sinha, Greenspan, & Handy, 2011).

As racial justice continues to transform the sector, we will need to know much more about nonprofits that are mandated for, led by, and serving Black, other racial, Indigenous, and ethnocultural communities. Such a chapter is a gap in this collection, not by intent but by logistics, as some planned contributions turned out not to be feasible. Because this resource is able to be a living, expanding one, we hope that researchers will take up this invitation to add chapters on this topic.

Indigenous Peoples and Paths to Reconciliation

"We are not talking about wanting a seat at your table. We want to build an entirely new table" (Jamieson, 2020: 163).

It is a gross understatement to say that historically the relationship of charities and philanthropy with Indigenous Peoples in Canada has been less than a kind or respectful one. At the conclusion of the Truth and Reconciliation Commission in 2015, a number of foundations and voluntary organizations signed a "Declaration of Action" that is a commitment, and an invitation to others, to move forward on a new relationship with a shared goal of reconciliation. Achievements have been mixed. Giving to Indigenous communities has risen by both foundations and individuals (CanadaHelps, 2020; PFC, 2020a); innovative actions, such as the Winnipeg Boldness Project, have been initiated (Rowe & Roussin, 2020); and community and other foundations have tried to build principles of reconciliation into their grantmaking (Dougherty & Ethier, 2018). But for many sector organizations, the paths to reconciliation have proven to be challenging, and progress is limited. Shereen Munshi and Elisa Levi (The Circle) discuss how the "learning journey" of a better relationship might move forward. For settler organizations, this includes adapting worldviews, appreciating Indigenous ways of knowing and reciprocity, and fully committing to the Declaration of Action.

Intersections with the Corporate Sector

Intersections with business are explored in the chapter by Cathy Glover, James Stauch, and Kelli Stevens (Mount Royal University). They trace the evolution of corporate community investment strategies along a continuum ranging from basic compliance with regulations (before the 1990s), through traditional corporate philanthropy (1980s and 1990s), to more strategic approaches that proactively develop "buckets" of funding that benefit the corporate brand, to integrated models in which companies look for opportunities that align with core business interests. They anchor the even more integrated continuum as a "social innovation" model in which corporations use a broader range of their assets (innovation capacities, marketing skills, managerial acumen, employee engagement, and ability to scale). Working in collaboration with community organizations, this approach aims to "co-create breakthrough solutions to complex problems" – a practice still relatively rare in Canada. An important takeaway from their analysis is the need to develop the sophistication of "community investment" professionals, in both community organizations and corporations.

Intersections with Governments: Services and Policy Engagement

Intersections with governments, through the delivery of services and engagement in public policy, affect large parts of the sector. Service delivery and advocacy can be seen as two sides of the same coin: the more that nonprofits are responsible for delivering public services, the more that their input into policy development is vital to improving the quality of these services and the underlying policy frameworks.

Service Delivery

Canada is classified as a "liberal welfare state" (Esping-Andersen, 1990), referring to a model of delivering public services via contracts with non-governmental organizations. More than 40% of the finances of charities come from governments (Hall et al., 2005), mainly through such service contracts. Given that provincial governments have constitutional jurisdiction over the big-ticket items of social services, health, and education, they are the primary funders. The specifics and effects of these relationships vary by province, particularly in Quebec, and they have evolved over time.

Major reform of these contracting regimes has been advocated by the sector for at least 20 years. The issues are more than money. Contracts rarely pay the full cost of service and have low bars for covering administrative costs, so that nonprofits must cross-subsidize the real costs from philanthropy and other sources, and consequently under-invest in infrastructure that supports innovation. Accountability requirements can be onerous – outstripping the scope of the contract – and are not harmonized across departments or levels of government. The short length of most contracts is a major source of financial vulnerability for charities and contributes to perpetuating precarious work. These issues were raised and documented by the Special Senate Committee (2018), which issued a series of recommendations for compensation of full overhead and infrastructure costs commensurate with the private sector, longer duration of contracts, and streamlined and harmonized reporting requirements.

The post-pandemic rebuilding of public services affords an opportunity to finally make progress on reform of contracting regimes. The relationships with government are more than money or contracts, however, as Rachel Laforest (Queen's University) explores in her chapter. Laforest first traces the legacy of "new public management" (that took hold in the late 1980s) to the evolution into a public management philosophy, "new public governance," that entails greater collaboration with nonprofits. Examining reforms in health and social services across the provinces, she argues that nonprofits were not passive subjects of change but were active partners in shaping delivery mechanisms so as to improve outcomes. In 2015, however, responsibility for health and social services was reorganized in many provinces to become much more centralized, resulting in the consolidation or disbanding of regional authorities. Laforest argues that this centralization requires nonprofits to enhance their own policy capacities and expand both formal and informal means of policy engagement.

The Quebec exceptionalism from the rest of Canada in how it has constructed the relationship between the third sector and governments is examined by Deena White (Université de Montréal). This unique relationship is a result of both the evolution of state institutions, designed to protect Quebec as a distinct society, and collective action by two distinct groups – community organizations and social enterprises – in the context of a culturally embedded suspicion of the market in social welfare. The chapter contrasts the relatively positive outcomes of an innovative system of childcare with the negative consequences of the evolution of long-term and home care, helping to explain why long-term care homes in Quebec did so poorly during the pandemic.

Policy Engagement

The chapters that round out the discussion of the sector–government relationship make a strong case for nonprofits and charities to be more active, and better, at engaging in public policy. Relatively few charities undertake public policy advocacy in a systematic or sophisticated way beyond sending information to public officials (Lasby & Cordeaux, 2016). The main reason that has usually been given is the "chill" on advocacy created by CRA rules on political activities: charities feared the wrath of, and possible revocation of their status by, the regulator or defunding by foundations that frowned on advocacy. But the political activity rules were abolished in 2018 so that charities have few regulatory constraints on policy engagement and advocacy, as long as it is not partisan. But significant constraints still exist, as do new possibilities, as argued in these chapters.

The constraints are mainly the lack of policy capacity and inadequate advocacy skills. Karine Levasseur (University of Manitoba) observes that a key aspect of a nonprofit's policy capacity is a commitment by the board to make this a core means of achieving the mission. Governments, too, need to enhance their policy capacity and assist in building capacity in their nonprofit partners. The next three chapters, contributed by leaders of the foundations that have been most supportive in building great policy capacity and advocacy skills, offer practical advice to the sector and examples of success.

Sandy Houston (Metcalf Foundation) agrees that the sector is limited by human and financial capacity. But he provides examples of how collective action through coalitions of nonprofits has been effective and points to opportunities created by the greater emphasis that governments place on consultation as a precursor to major policy changes. To take advantage of these openings, Houston argues that greater financial support is needed to put the sector's role in the policy-creation process on stronger and more sustainable footing. To date, most of this financial support has come from a handful of private foundations. If governments are serious about moving to more collaborative models, they need to invest in the capacity of their sector partners to engage in policy in more meaningful ways.

Allan Northcott (Max Bell Foundation) takes up the theme of the need to teach policy-advocacy skills, as his organization's Public Policy Training Institute has been doing in Western Canada since 2008. Northcott defines public policy advocacy in a specific way: "helping governments do better at something they're already doing, or do well at something they've already committed to doing. It's not about trying to persuade governments to add or remove things from their agendas." Northcott argues that nonprofits need to do policy advocacy – and governments need them to do it – for two key reasons: to leverage expertise in pursuit of public good and to strengthen democracy. Nonprofits fail in their advocacy efforts primarily because they pin their hopes on getting a meeting with the minister, which reflects a misapprehension of how governments work. They also tend to adopt a "campaign mentality," assuming that the same kinds of tools they use in fundraising and in broad social change will work in policy engagement. The chapter offers guidance for how to do advocacy better.

The companion piece by Marcel Lauzière (Lawson Foundation) focuses on the role that foundations can, and should, play in this. Lauzière agrees that policy advocacy integrated into a charity's narrative and done well can be an important differentiator in a competitive environment. The advice to foundations is to invest in collaboration and people, use their network connections and powers of convening to engage and influence others, and support infrastructure in the sector.

All Paths Lead to Impact

The convergence of the trends and challenges described in these chapters has led the sector to a place of much higher expectations of impact and transparency about impact. Some might say nonprofits have been cornered by the high and often competing expectations of impact. Potential donors say that impact matters in their giving decisions, although there is little evidence that they actually rely on impact measures in these decisions, instead reverting to the easy shorthand of overhead ratios to indicate efficiency and effectiveness. The "effective altruism" movement asserts that social science can determine the "best" causes to support (MacAskill, 2019). Governments and foundations require evaluation of outcomes, often on time horizons that are too short to assess outcomes. Impact investing relies on standardized measures of impact in order to value and trade impacts on social exchange markets. The availability of big data is both a democratizing force and a narrowing one, making multiple new sources of evidence available to nonprofits – but limiting their use to organizations with data analytical skills.

The final chapters focus on some of these dilemmas, means, and opportunities related to the measurement and communication of impact.

Kate Ruff (Carleton University) tackles some of the measurement issues, arguing that performance assessment can be relatively easy when done for the "right" reasons. It becomes more challenging, however, when we attempt to have it fulfil multiple purposes or ignore the ecosystem of interconnected organizations in which it takes place. Impact measurement can be used to learn, manage, account, or communicate. But we confuse these goals and ask impact measurement to do too many different and conflicting things at once and in differing contexts of stability, uncertainty, and complexity. Ruff addresses these tensions and provides tips for more effective impact measurement and its use.

Michael Lenczner and Jesse Bourns (Ajah Inc. and Powered by Data) and Tracey Lauriault (Carleton University) reflect further on how and why the current system of impact evaluation is broken. Although Lenczner, Bourns, and Lauriault are themselves data specialists, they challenge the notion that simply more data or big data or machine learning can fix impact evaluation. Most nonprofits do not have the resources to have high-quality data systems, or the data-analytic skills to use them well, and there are few common standards to share information across programs and organizations. The need, they suggest, is for the sector and its stakeholders to create a more robust collective data infrastructure that enables data sharing and pooling across nonprofits so we can better assess how a given program compares to others and to what has been tried in the past.

The challenge for nonprofits is not only to assess well the outcomes of their work, but to communicate it effectively in an era of "attention philanthropy" in which donors and stakeholders are "overwhelmed by information overload and a dearth of attention" (Guo & Saxton, 2020: 196). Social media is a big part of this overload, and the fix for it. Particularly in their advocacy work, nonprofits need to be strategic in maximizing the right kind of attention, generating social media capital that builds coalitions and leveraging attention by creating a synergy between their online and offline presence (Guo & Saxton, 2020). Margaret Herriman (Max Bell Foundation) offers a practical guide to using social media, emphasizing the need for nonprofits to develop strategic plans as to what they seek to achieve.

The concluding chapter seeks to debunk one of the great myths of how we assess impact – that "overhead" ratios are a useful measure of effectiveness. Caroline Riseboro (Trillium Health) presents the case for why we should abandon the use of ratios of administrative and fundraising costs to overall program costs as a proxy for efficiency or effectiveness. Overhead ratios perpetuate the "starvation cycle" (Lecy & Searing, 2015; Gregory & Howard, 2009) of under-investment in critical infrastructure: they encourage under- or misreporting, and they don't actually enable us to compare across different kinds of nonprofits. The chapter offers suggestions for some useful alternatives.

Looking Forward

As this collection illustrates, significant change in Canada's voluntary and nonprofit sector was already occurring before the global pandemic and the racial justice movement but has been turbocharged by them.

The next few years will undoubtedly mean a smaller sector as many charities and nonprofits fail to survive. And other big issues still lie ahead – climate change, actual racial and Indigenous justice, rising income inequality, and the reinvention of systems of care. Financing models will need to be reworked. We can expect a major turnover in leadership, already pending due to demographics alone, but possibly accelerated as people reassess the course of their lives. Talent development, cultivation of new skills, and more serious attention to inclusion will all be part of this transition. During the pandemic, Zoom changed our lives. But as much as technology has already altered meetings and fundraising, the sector is only at the beginning of the technology transformation.

Reconciliation with Indigenous Peoples and greater space for organizations mandated by and for Black/Indigenous/racialized people needs to be created. If early responses by foundations are expanded, Canada may see a more activist philanthropy, working on big issues and systems change, and more strategic relationships with the corporate sector.

What has become apparent in recent years is that the voluntary and nonprofit sector is not adequately on the policy radar of Canadian governments – at all levels. We saw this in policy responses to COVID-19 by provincial and federal governments: they understood and quickly responded to the needs of small business but generally overlooked that charities and nonprofits are also important employers, renters, and providers of services. The need for more enabling policies for the sector, better engagement of governments with the sector, and collective leadership by it has never been greater.

To address these multiple, complex challenges as a country, we cannot rely on imported assumptions and evidence from elsewhere. Rather, we need Canadian-based data and resources. We need to scale research about and for Canada's nonprofit sector and philanthropy, ensuring research is informed by and informs professional practice and policy.

This collection is intended to be a first step toward informing and scaling. We look forward to making it "evergreen" through revisions and additions. Please take this as an invitation to contribute.

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Biography

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Bob Wyatt is executive director of the Muttart Foundation, a private foundation based in Edmonton. He served as co-chair of the Joint Regulatory Table during the Voluntary Sector Initiative and has remained active in exploring ways to improve the regulatory regime for Canadian charities. He is a regular guest lecturer in the Master of Philanthropy and Nonprofit Leadership (MPNL) program at Carleton University, which awarded him an honorary Doctor of Laws degree for his service to the charitable sector. His work on behalf of the sector also led to his receiving the Alberta Centennial Medal and the Queen Elizabeth Diamond Jubilee Medal.

Part I Introduction

Intersections and Innovations: Change in Canada's Voluntary and Nonprofit Sector

State of the Sector and Public Opinion about the Sector

Four Keys to Make Sense of Traditions in the Nonprofit Sector in Canada: Historical Contexts

The Muttart Foundation

Chapter 2

State of the Sector and Public Opinion about the Sector

David Lasby, Cathy Barr
Imagine Canada

Before you dive into the following chapters that analyze various aspects of Canada's charitable and nonprofit sector, it is important to understand what we mean when we talk about "this" "sector." When we make claims about the size, contribution, and diversity of this sector, how solid are the data on which we base such claims? Where can we turn to get good information about the sector so we can better understand it? The chapter summarizes current knowledge about the size and scope of the Canadian nonprofit and charitable sector as well as public opinion about the sector. First, we briefly describe currently available information sources about the size and scope of the sector. Second, we discuss what these sources tell us about the size and composition of the sector, including its financial and human resources. Finally, we summarize the major points of what is known about public opinion regarding the sector and the organizations that comprise it.

Current Information Sources

Where can we look for comprehensive – at least as comprehensive as possible – information about this sector? At present, there are two primary sources of information about the size and scope of the nonprofit sector. The first is the System of National Accounts produced by Statistics Canada, and the second is administrative data collected by the Charities Directorate of the Canada Revenue Agency (CRA) as part of its regulatory duties.

National Accounts Data

The most cohesive and focused body of national accounts data relating to the nonprofit sector is the Satellite Account of Non-Profit Institutions and Volunteering.[1] This initiative has generated two distinct data series – the first, released between 2004 and 2010, covers the period from 1997 to 2008 (Hamdad, Joyal, et al. 2004; Statistics Canada, 2010); the second, released in the spring of 2019, covers the period from 2007 to 2017 (Statistics Canada, 2019).[2] Key strengths of this data set are that it includes both registered charities and nonprofit organizations and situates the nonprofit sector in the broader economy, providing long-term-trend data, including economic impact, major financial inputs, size of the labour force, and the economic value of volunteering. The major limitation is that it is aggregate data and does not provide any significant insight into inter-organizational variability.

The Satellite Account highlights the economic contributions of nonprofit organizations[3] from three distinct subsectors:

- **Government nonprofit organizations:** In standard economic measures, these organizations are part of the government sector. They include hospitals, some residential care facilities, and universities and colleges. In most reporting, the government nonprofit subsector is broken into two categories: health (hospitals and residential care facilities) and education (universities and colleges).
- **Community nonprofit organizations:** Also known as "nonprofit institutions serving households" (NPISH) in standard economic measures, these organizations provide goods and services to households either "free or at prices that are not economically significant" (United Nations, 2003). Examples include social services, recreation, and religious organizations.
- **Business nonprofits**: In standard economic terms, these organizations are part of the business sector and are largely invisible as a distinct entity. Making them visible is perhaps the most significant contribution of the Satellite Account framework. Examples include business and professional associations, condominium corporations, and nonprofit airport authorities.

In addition to the data assembled as part of the Satellite Account, Statistics Canada also produces a range of other data focusing on NPISH and government-aligned organizations. Most data products deal only tangentially with nonprofit organizations, but a few (e.g., those focusing on labour productivity) can be quite useful and will be incorporated into this chapter.

Canada Revenue Agency Data

These data consist of the publicly available data fields from the T3010 information returns that registered charities are required to file annually with the CRA. The returns contain a wealth of information about the finances and human resources of charities and some aspects of their activities (e.g., fundraising, activities outside Canada, and, in prior years, involvement with advocacy and political activities). A key strength of these data is that they are available at the organizational level, and thus support detailed exploration of variability across organizations. The major limitations are that the data exclude organizations that are not registered charities, nor are the data well integrated into existing nonprofit classification frameworks, such as those used in the Satellite Account.[4]

Summary

Given that they provide aggregate and organization-focused data, these sources have the potential to be quite complementary. The key challenge is that they are not completely aligned in terms of either scope or coverage. In addition to the fact that CRA data exclude nonprofits, the Satellite Account data exclude a few key types of charities, most notably public and separate school boards and public libraries. While this exclusion involves only a few hundred charities, many of them are quite large and collectively involve significant financial and human resources. While the two data sources overlap far more than they diverge, it is simply not possible to fully reconcile them to produce unified estimates of the size and scope of the sector, at least with publicly available information. For this reason, this chapter will use the two sources as different lenses on the sector. In general, Satellite Account data will take primacy when describing the overall size and scope of the sector, while charities' T3010 data will be used to explore inter-organizational dimensions not otherwise available.

Size and Composition of the Sector

Much of the rest of this chapter is devoted to characterizing the size, composition, and resourcing of the nonprofit sector, highlighting variability against key organizational dimensions. The most important of these are economic subsector, as used in the Satellite Account; activity area (i.e., what organizations do, according to the International Classification of Nonprofit Organizations, or ICNPO); and organization size by annual revenues.[5] These dimensions are occasionally supplemented with others such as legal form (public and private foundations vs. operating charities), where relevant. Generally speaking, each section is organized so that it first covers Satellite Account data (i.e., nonprofits and charities), followed by charity-specific data. When drawing on Satellite Account data, we reference "organizations"; when drawing on T3010 data, we reference "charities." In addition, we refer to community and business nonprofits/charities as "core" and government nonprofit organizations/charities as "government-aligned."

Number of Organizations

At present, there is no definitive estimate of the total number of organizations in the charitable and nonprofit sector. While the number of registered charities at any given moment is tracked by CRA and publicly available on its website, there is no equivalent source for nonprofits. In 2003, the National Survey of Non-Profit and Voluntary Organizations (NSNVO) estimated there to be approximately 161,000 organizations, roughly equally divided between registered charities and nonprofits (Hall et al., 2005). As a back-of-the-envelope estimate, if nonprofit organizations grew in numbers at the same rate as registered charities, there should now be approximately 171,000 organizations. While this number is plausible, it is speculative – particularly given that growth rates for registered charities have been variable and the very real likelihood of an independent trajectory for nonprofit organizations.

Legal Form

In terms of recent trends, the total number of registered charities has increased by 2% since 2007 (approximately 2,500 in absolute numbers), equivalent to a compound annual growth rate of 0.3%. The largest part of this growth has been in private foundations, which have increased by about a quarter (1,150) over the period, equivalent to a compound annual growth rate of 2.4%. Growth in the numbers of public foundations (0.3% annually) and operating charities (0.1%) over the same period has been much more subdued. In fact, numbers of public foundations and operating charities have remained steady or declined since 2012, while private foundation numbers have continued to increase. In terms of net effects, between 2007 and 2017, private foundations have gone from making up 5.4% to 6.7% of charities, while operating charities have gone from being 88.8% of charities to 87.5% (the role of public foundations has remained essentially unchanged).

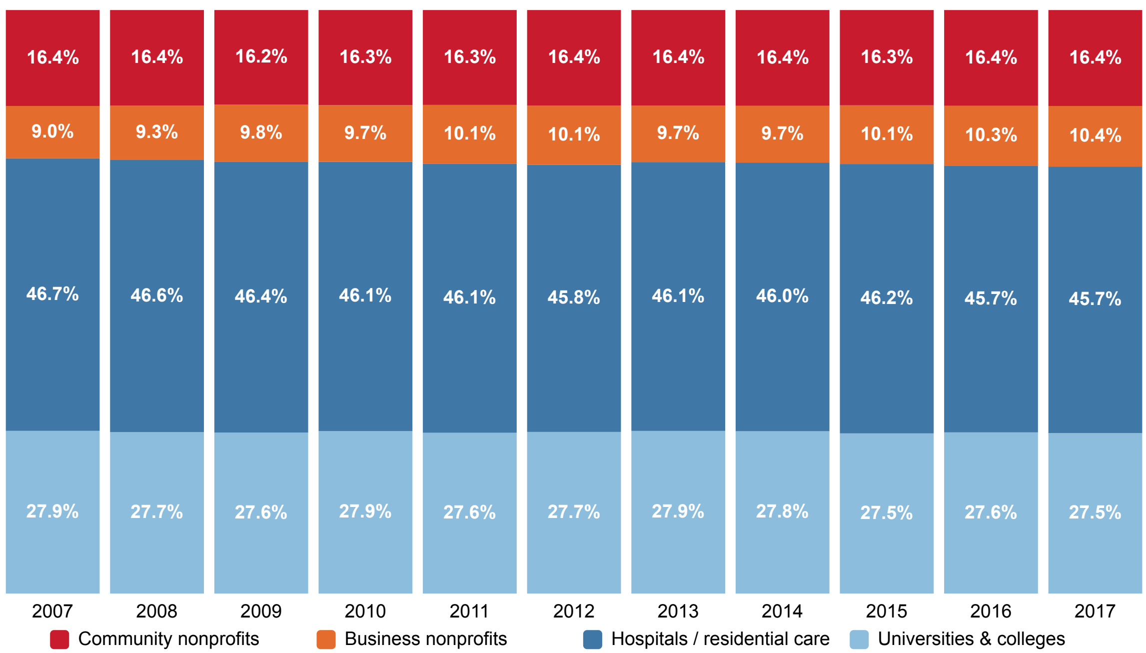
Activity Area

In terms of numbers of organizations by primary activity area, recent years have seen significant increases in the number of organizations working in the areas of international development and relief (an increase of 17%, equivalent to compound annual growth of 1.6%), grantmaking and fundraising (14%, equivalent to 1.3% annually), the environment (13%; 1.2%), and sports and recreation (13%; 1.2%). Over the same period, the number of hospitals has decreased by 20% (–2.2% annually), driven by major amalgamations and restructuring of organizational reporting rather than by a decline in the importance of hospitals. Similarly, universities and colleges have decreased by approximately 6% (0.6% annually). Other areas that have seen declines include law, advocacy, and politics (–12%; –1.3%) and development and housing (–8%; –0.8%). Overall, the net effect has been that government-aligned charities have decreased in number by approximately 7% since 2007 (0.7% annually), while core charities have increased in number by 3% (0.3%).

Economic Role

The nonprofit sector currently accounts for 8.5% of Canada's gross domestic product (GDP) (Statistics Canada, 2019). Just over a quarter (27%) of nonprofit GDP (2.4% of Canada's total GDP) is contributed by core organizations; 46% (3.7% of national GDP) by hospitals and other residential care facilities; and the balance, 28% (2.3% of national GDP), by universities and colleges (see Figure 1) (Statistics Canada, n.d.). Looking within the core sector, community nonprofit organizations account for 1.3% of national GDP, and business nonprofits account for 1.1%. Since 2007, nonprofit GDP has increased in constant dollar terms by 26%, equivalent to a compound annual growth rate of 2.4% and appreciably higher than for the economy generally, which has increased at about 1.6% annually (Statistics Canada, n.d.). While community nonprofit growth (2.6%) has more or less paced the nonprofit sector as a whole, business nonprofits have grown significantly faster (4.1%). In contrast, both government-aligned education (2.1%) and health (2.1%) organizations have slightly lagged behind overall nonprofit growth. The net effect has been that the share of nonprofit GDP produced by business nonprofits has increased over the previous decade, at the expense of government-aligned nonprofits.

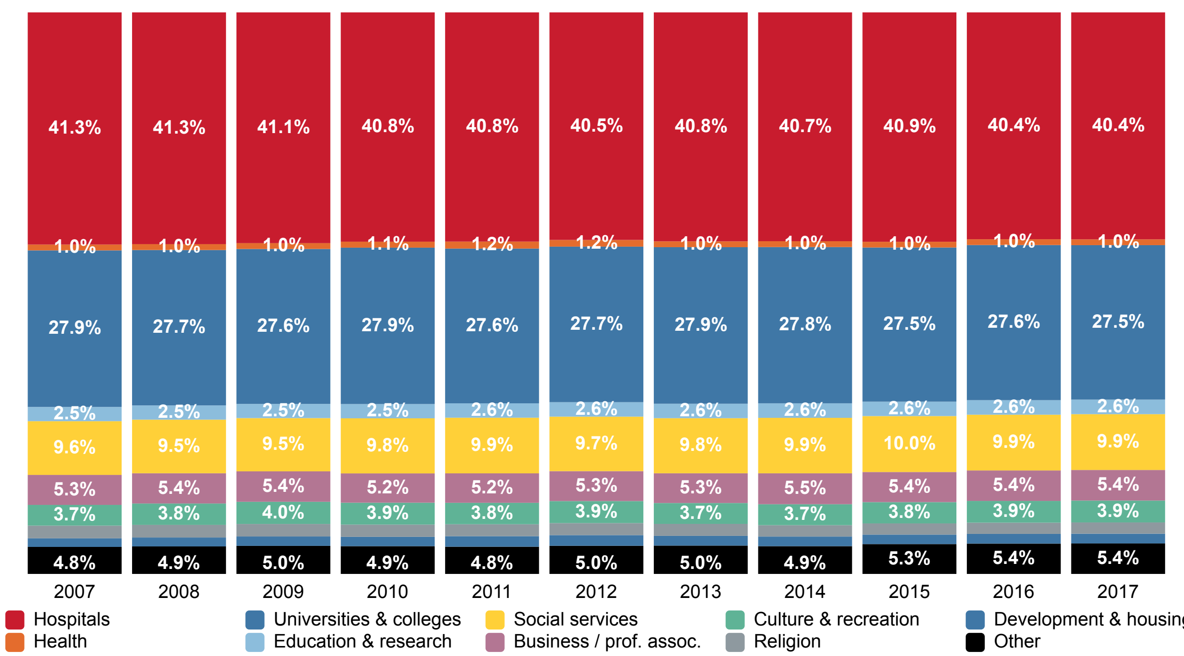
Figure 1: Percentage of nonprofit GDP by sub-sector, 2007 to 2017



Activity Area

Given the significant economic role of government-aligned organizations, hospitals and universities and colleges are the activity areas that account for the largest portions of GDP (see Figure 2) (Statistics Canada, n.d.).[6] Social services account for the next largest portion, followed by business and professional associations and unions, culture and recreation, religion, and development and housing organizations. All other activity areas each account for less than 1% of sector GDP, with the exception of activities not elsewhere classified.[7] Since 2007, nominal (i.e. in current dollars without adjusting for inflation) GDP[8] has increased most rapidly among development and housing organizations (5.9% annually), followed by culture and recreation (5.1%), social services organizations (5.0%), and business and professional associations and unions (4.8%). Interestingly, GDP growth in core health (4.5%) and education and research organizations (4.8%) has slightly outpaced growth in the related government-aligned activity areas. The slowest growth, by far, has been among religious organizations, which grew at 3.3% annually.

Figure 2: Percentage of nonprofit GDP by activity area, 2007 to 2017



Organizational Revenues

According to Satellite Account estimates, 2017 organizational revenues for the nonprofit sector totalled approximately $269 billion (see Figure 3) (Statistics Canada, n.d.). Hospitals and residential care facilities accounted for the largest part of revenues, followed by community nonprofit organizations. Universities/colleges and business nonprofits each accounted for roughly similar percentages of total nonprofit revenues. Since 2007, revenues have grown least among community nonprofits (excluding a significant spike in 2017[9]) and universities and colleges (see Figure 4). Business nonprofit revenues have seen the greatest growth, though this growth has been very volatile, with significant pullbacks in 2013/2014 and 2016. Hospital and residential care revenues have grown quite steadily, between the extremes of the other subsectors.

Figure 3: Total nonprofit revenues by subsector, nominal dollars, 2007 to 2017 (billions)

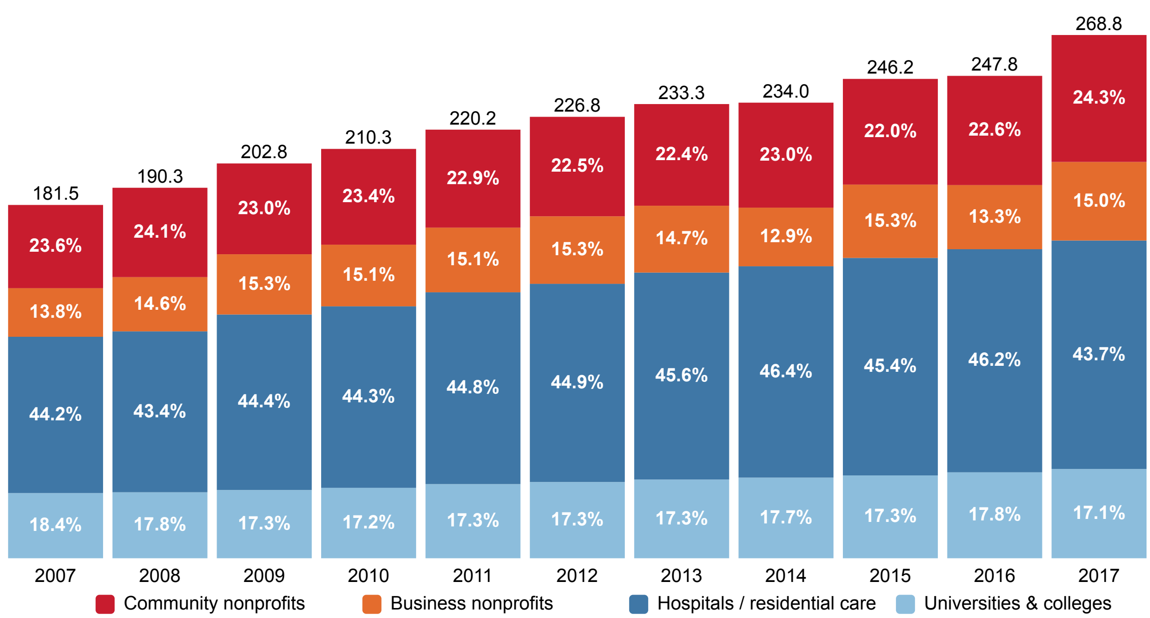
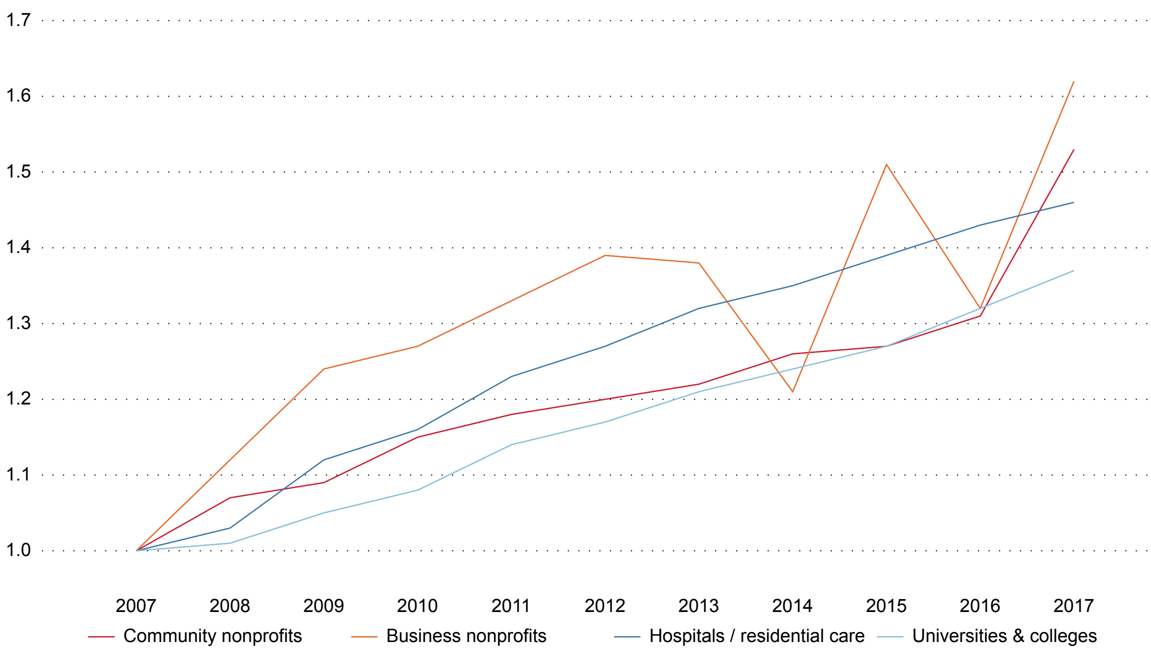


Figure 4: Index of nonprofit revenue growth by subsector, nominal dollars, 2007 to 2017 (2007 = 1.00)



Turning to charities, the overall picture is quite similar. Total revenues have grown by 37% in constant dollar terms, going from $205 billion in 2007 to $281 billion in 2017.[10] As with nonprofit sector revenues, government-aligned charities account for a disproportionate share of total charitable revenues.[11] While less than 2% of charities are government-aligned, they consistently account for somewhat more than two-thirds of charitable revenues (see Figure 5). Except during the 2008/2009 financial downturn, revenues of government-aligned and core charities have followed quite similar growth trajectories (see Figure 6). Revenues of government-aligned charities have increased by 37% in constant dollar terms since 2007, while core charity revenues have increased between 26% and 35%.[12]

Figure 5: Total revenue of charities by alignment with government, constant dollars, 2007 to 2017 (billions)

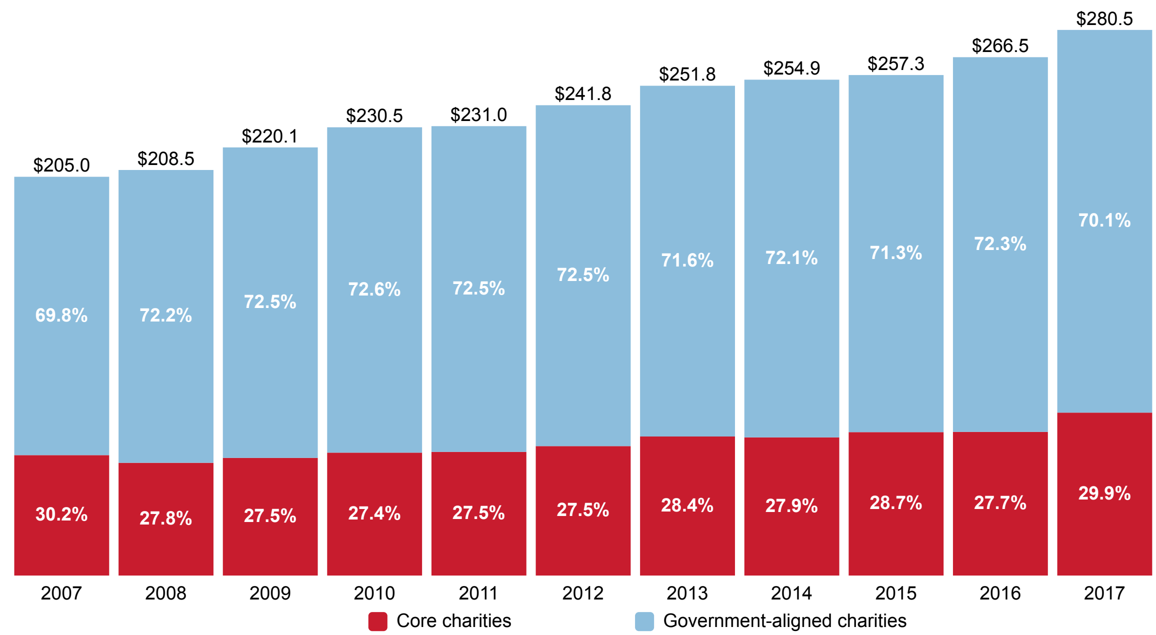
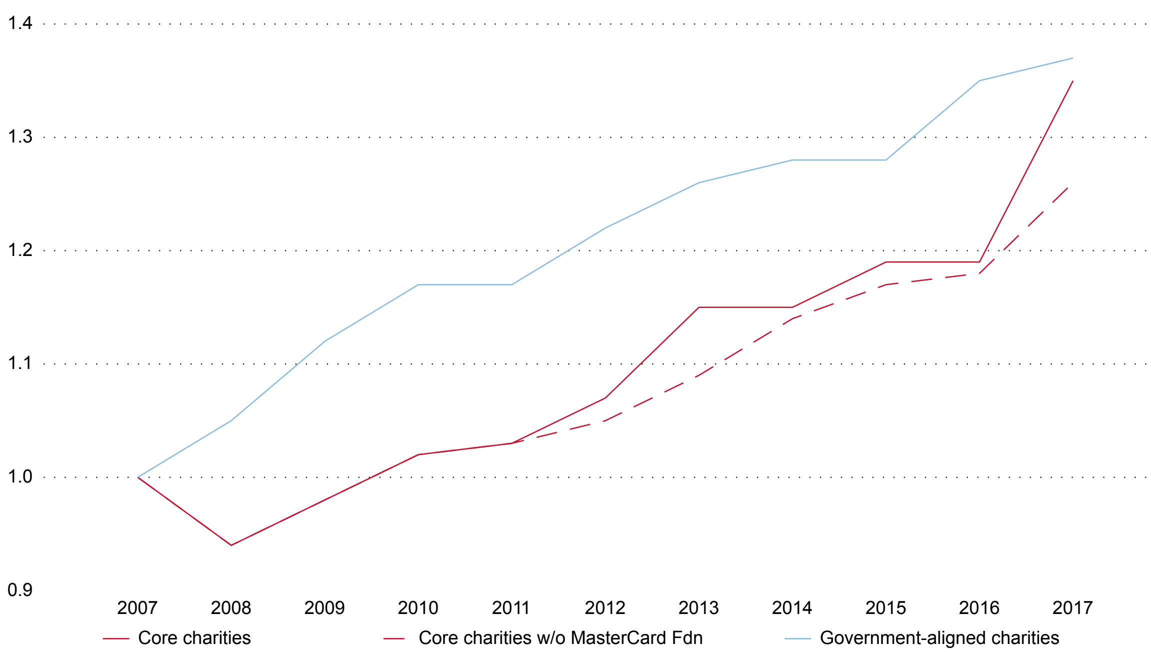


Figure 6: Index of revenue growth of charities by relation with government, constant dollars, 2007 to 2017 (2007 = 1.00)



Legal Form

In terms of specific types of charities, public foundation revenues have increased by 30% and operating charity revenues by 33% over the period as a whole (equivalent to compound annual growth of 2.7% and 2.9%; see Figure 7). Private-foundation revenue growth has been greater, conservatively hitting 76% for the period.[13] Since 2007, operating charity revenues have increased fairly consistently, even in spite of the economic downturn of 2008/2009 (see Figure 8). Things have been quite different for foundations, which experienced significant contractions after 2007 and did not hit previous revenue levels until the period from 2011 to 2013, though the pace of growth since roughly 2010 has tended to be faster than among operating charities. Private foundation revenue has been particularly volatile, with multibillion-dollar year-over-year swings being fairly common. While much of this is driven by a single huge foundation, considerable volatility remains even when this foundation is excluded.

Figure 7: Total revenues of charities by legal form, constant dollars, 2007 to 2017 (billions)

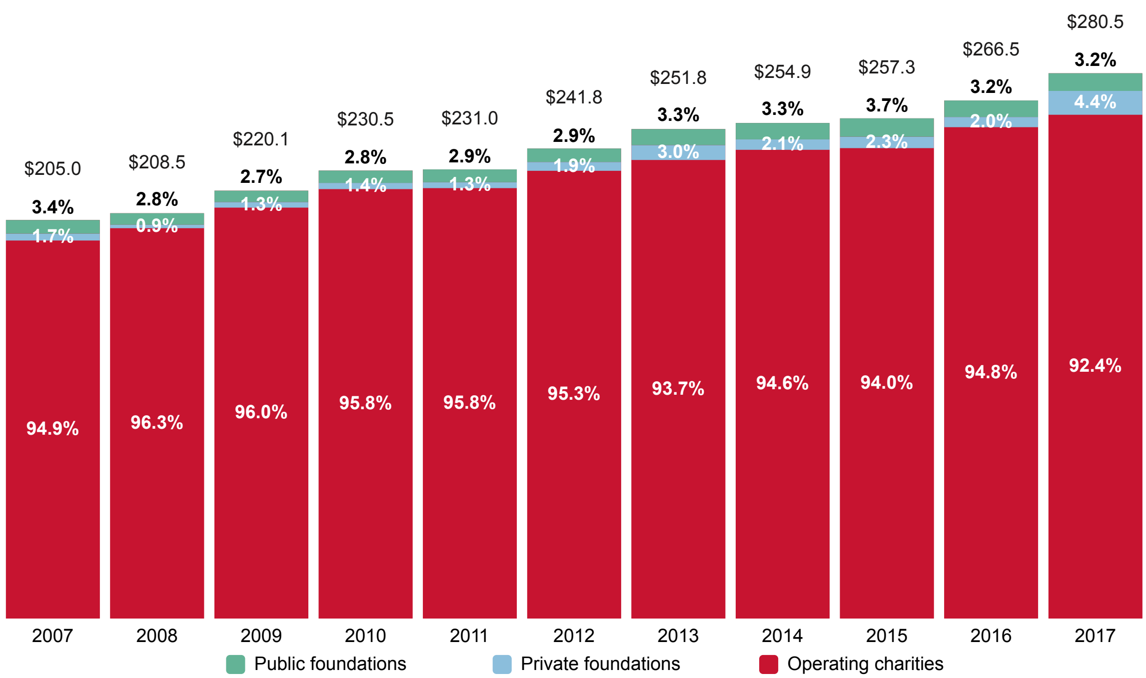
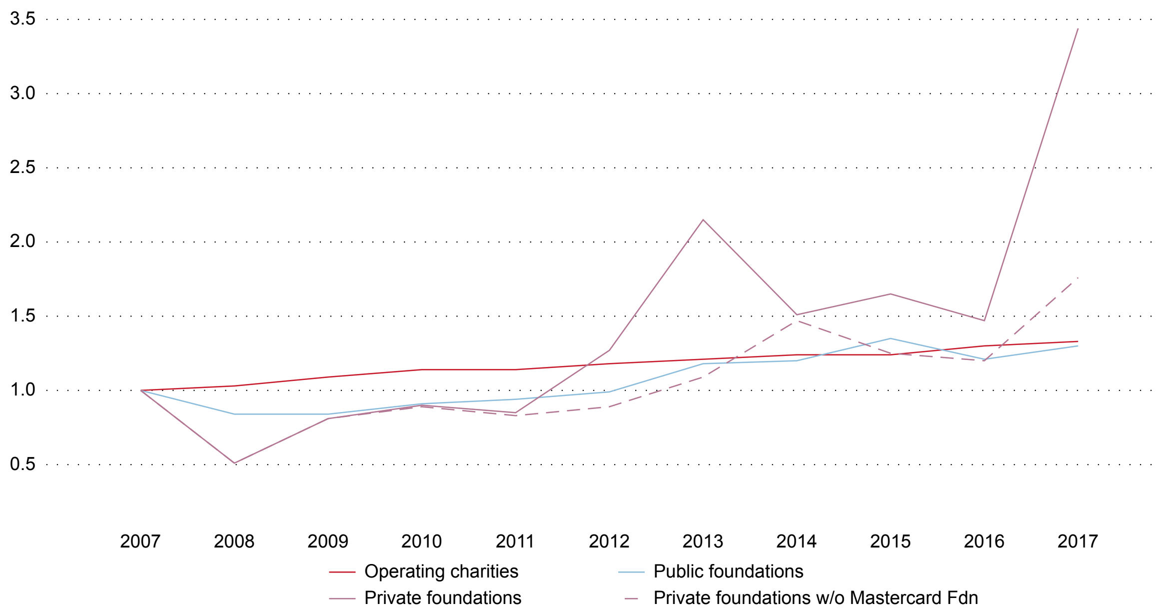


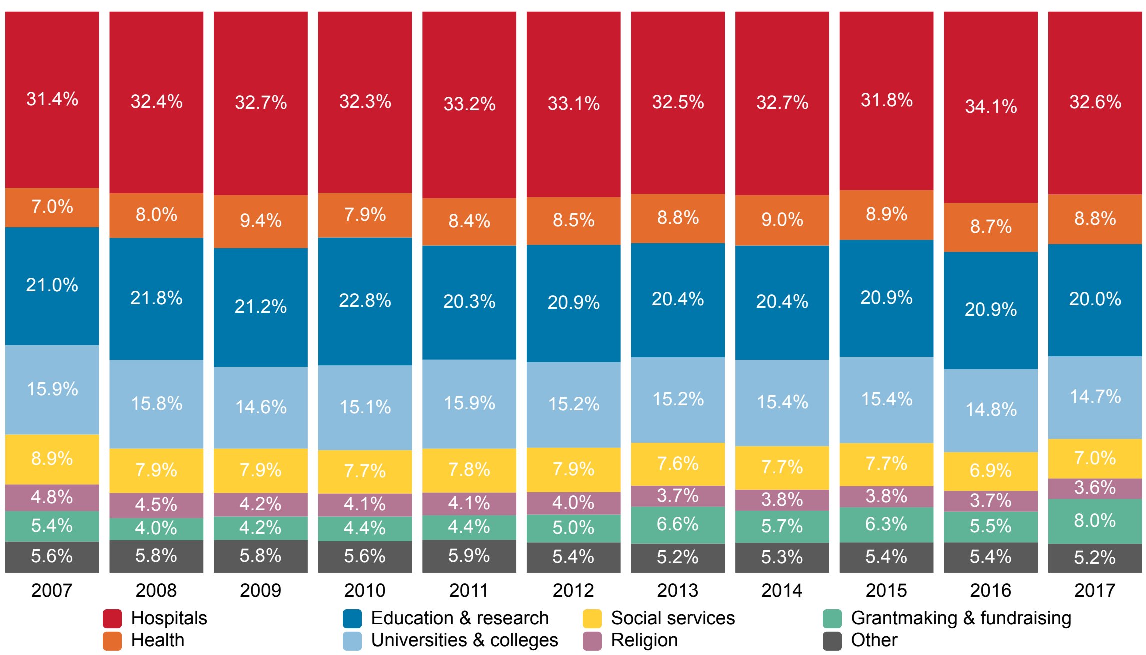
Figure 8: Index of revenues of charities by legal form, constant dollars, 2007 to 2017 (2007 = 1.00)



Activity Area

Charities working in health and education predominate, collectively accounting for roughly three-quarters of total revenues (see Figure 9) (Statistics Canada, n.d.). In 2017, hospitals and other health organizations account for more than two-fifths of total revenues, while universities, colleges, and other education organizations account for just over a third. Social services organizations make up the largest part of remaining revenues, followed by charities devoted to grantmaking and fundraising and religion. The remaining seven activity areas constitute the balance of total charitable revenues.[14] While year-over-year figures are somewhat volatile, the general trend is that hospitals and health-related organizations are accounting for a larger percentage of total revenues, primarily at the expense of organizations in education-related activity areas and social services. The role of religious organizations appears to have been steadily decreasing, while grantmaking and fundraising organizations have increased in importance, driven in large part by the substantial increases in the number and revenues of foundations.

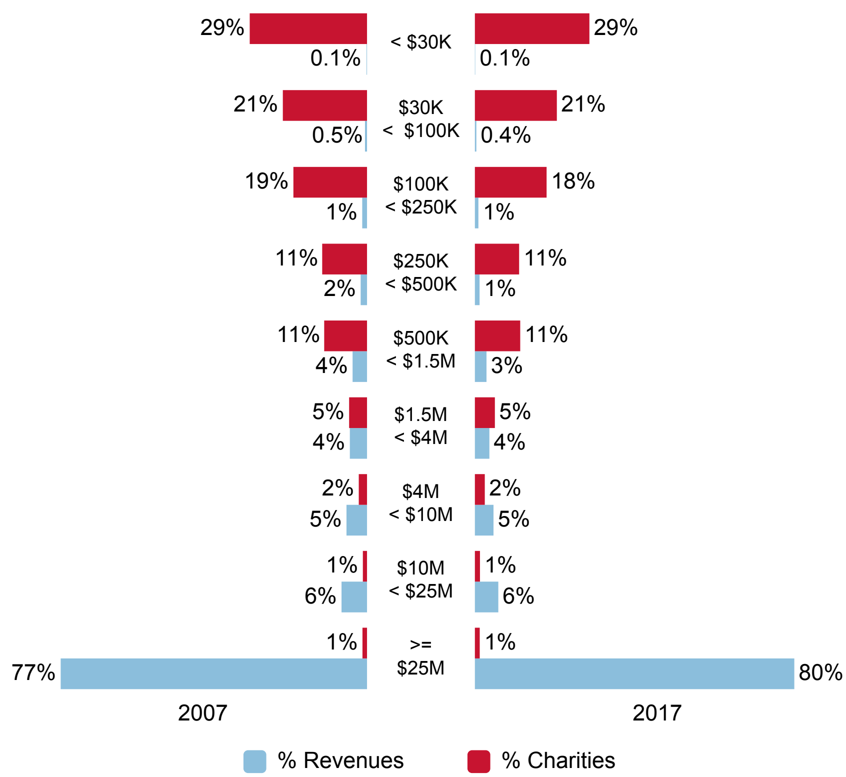
Figure 9: Distribution of total revenues of charities by activity area, 2007 to 2017



Organization Size

Looking at the distribution of revenues by organization size, the most immediately striking observation is how small most charities are. Fully half report annual revenues of less than $100,000, but collectively they account for only about half a percent of total revenues (see Figure 10). In contrast, the 1% of charities with annual revenues of $25 million or more (60% of which are government-aligned) account for four-fifths of total charitable revenues. Collectively, the remaining 49% of charities between these two extremes account for about a fifth of total charity revenues. In terms of meaningful trends, while the number of charities with revenues less than $500,000 has remained remarkably constant since 2007, the number of charities larger than $500,000 has increased by 12% – with the largest increase in the $4 to $25 million range.[15] Because such small percentages of charities were in the larger size categories in 2007, this reshaping is largely invisible in the aggregate figures. By size class, average revenues have remained constant, except among the largest charities. Here, they increased by 31%, driving the bulk of the increased concentration of revenues in these organizations.

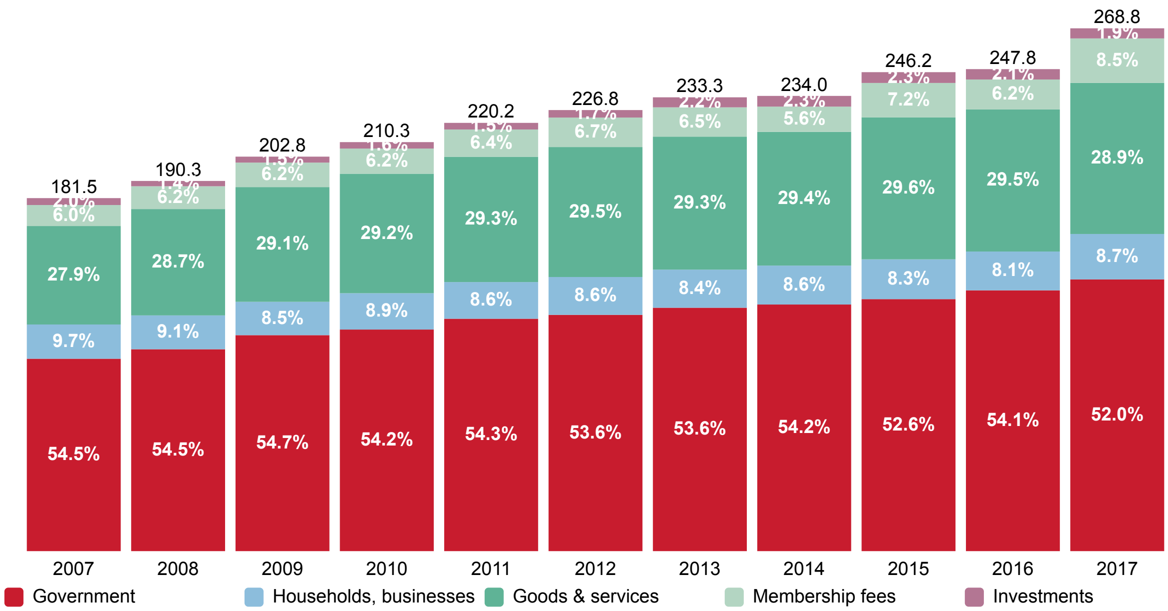
Figure 10: Distribution of total revenues of charities by revenue size class, constant dollars, 2007 and 2017



Financial Resources

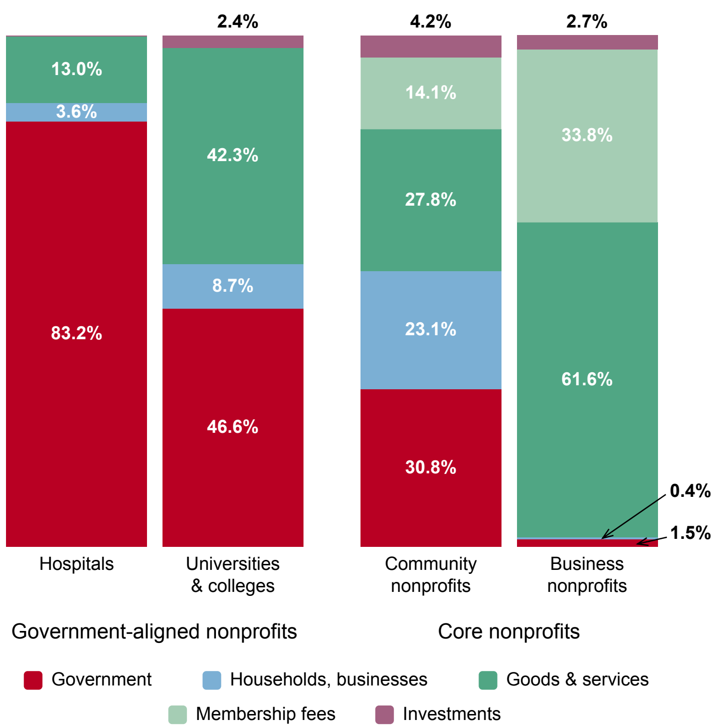
The vast majority of revenues for the nonprofit sector come from government and earned income, the latter either as sales of goods and services or as memberships (see Figure 11) (Statistics Canada, n.d.). In 2017, about one dollar in 11 came from donations, either from households (individuals) or businesses, and 2% came from investments. Since 2007, the fastest-growing revenue source has been membership fees, which have more than doubled in nominal terms, growing at a compound annual rate of 7.8%. Goods and services are the next fastest growth area (4.4%), followed by investment income (3.9%). While government transfers are the largest source of nonprofit income, they are among the slowest growing (3.5%), followed by donations (2.9%).

Figure 11: Total nonprofit sector revenues by major source, 2007 to 2017 ($ billions)



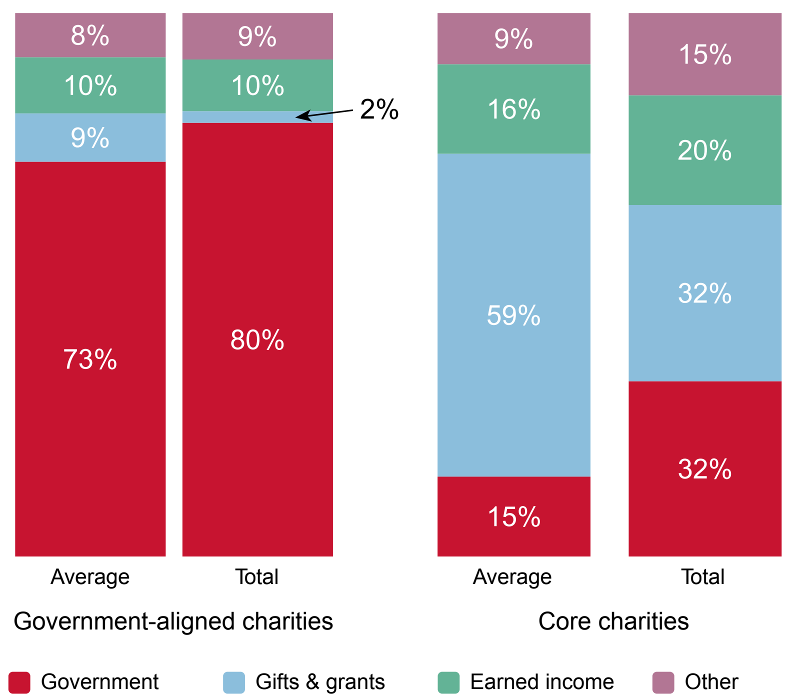
Each of the four major subsectors has a distinct revenue profile. While government revenues are predominant for government-aligned nonprofits, they account for an absolute majority of total revenues only for hospitals and residential care facilities: for universities and colleges, sales of goods and services play almost as large a role (see Figure 12) (Statistics Canada, n.d.). Overall, donations play a comparatively small part in the revenues of government-aligned organizations, and investment income plays an even smaller part. For business nonprofits, earned income is the largest share of revenues – either via the sales of goods and services or membership fees. Compared to the other subsectors, the revenue profile for community nonprofits is somewhat more diverse, with government funding, sale of goods and services, and donations all playing significant roles.

Figure 12: Distribution of nonprofit sector revenues by major source and subsector, 2017



When we look at the experiences of individual charities, the differences between government-aligned and core organizations are more profound than indicated by the aggregate data. With government-aligned charities, the revenue profile is fairly uniform: that is, the typical charity is quite similar to the aggregate profile for these charities as a group.[16] In both cases, government is by far the dominant source of revenue, with earned income coming a distant second (see Figure 13).[17] The only major difference between the two revenue profiles is that gifts and grants tend to be more important for the typical charity than for government-aligned charities. This is quite different for core charities. The revenue profile of the typical core charity is markedly different from the profile for core charities as a group. In the aggregate, government revenues are as important as gifts and grants. However, gifts and grants are much more important for the typical core charity – so much so that they also crowd out earned income and income from other sources, although not to the same extent as with government revenues.

Figure 13: Total vs. average revenues of charities by source: core vs. government-aligned, 2017

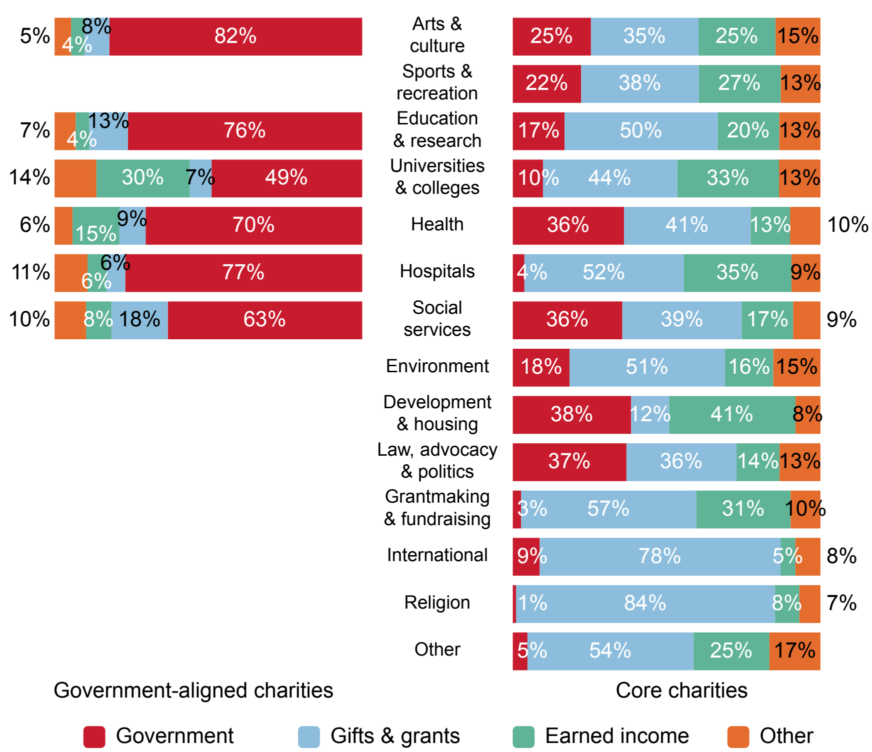


Activity Area

Regardless of the specific activity area, government revenues tend to predominate among government-aligned charities (see Figure 14). In most areas, government revenues typically account for two-thirds or more of total organizational revenues. Universities and colleges, and to some extent social services charities, mark the exceptions to this trend. Among government-aligned social services charities, gifts and grants tend to fill the gap in government revenues, while earned income plays an equivalent role for universities and colleges.

For core charities, government revenues are typically more significant among human services charities working in areas such as health, social services, and development and housing. Gifts and grants tend to play very large roles among religious and international-development and relief charities. They also account for half or more of total revenues for fundraising and grantmaking charities, environmental charities, and core education/research and hospital-related charities.[18] Earned income constitutes a third or more of total revenues among development and housing and grantmaking and fundraising charities, as well as core charities related to hospitals and universities and colleges.

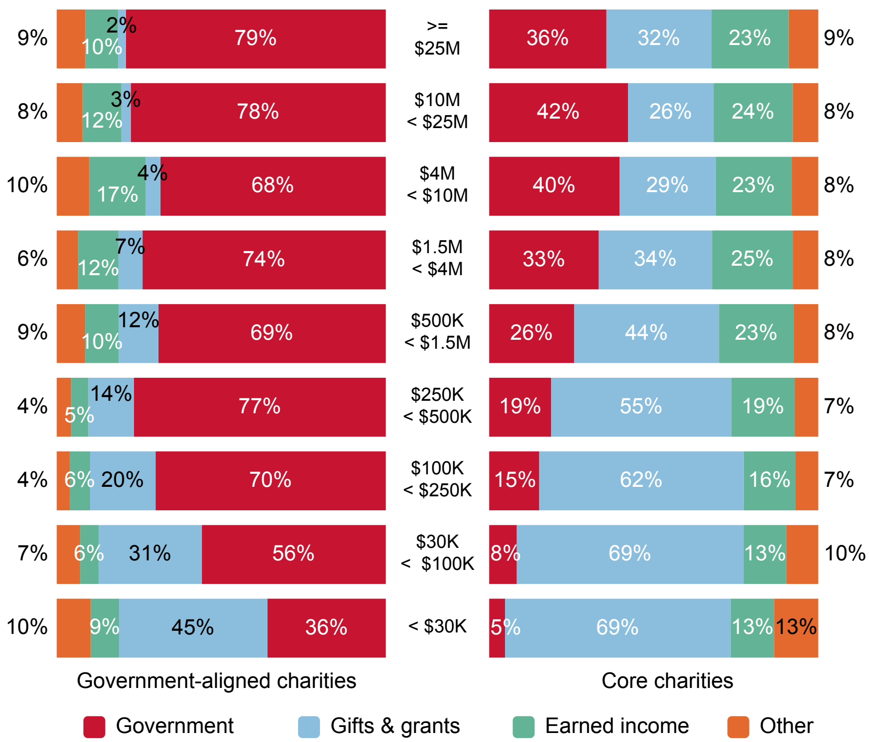
Figure 14: Average revenues of charities by major source, activity area, and government alignment, 2017



Organizational Size

Generally, the larger individual charities are, the more their typical revenue profile mirrors the aggregate revenue profile for the subsector as a whole (see Figure 15). The smaller they are, the more the typical revenue profile varies from the aggregate. Three major trends can be seen in this variation. First, for both government-aligned and core charities, government revenues play a larger role as annual revenue size increases. Second, the importance of gifts and grants decreases as size increases, particularly among government-aligned charities, where grants and donations account for only a tiny fraction of revenues for charities with annual revenues of $4 million or more. Third, the importance of earned income increases until charities reach approximately $500,000 in annual revenues, when it seems largely to plateau.

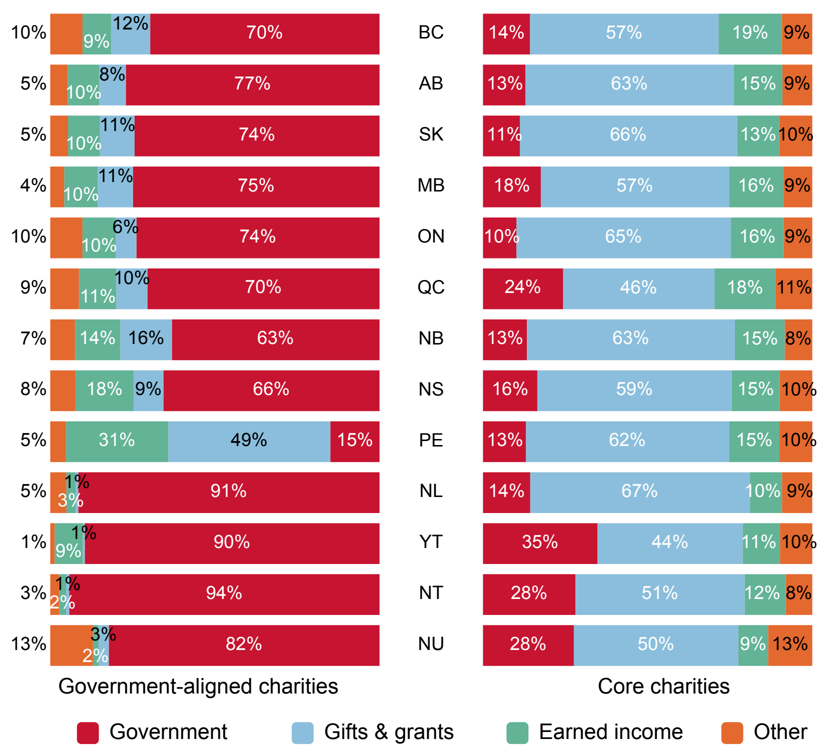
Figure 15: Average revenues of charities by major source, revenue size class, and government alignment, 2017



Province and Territory

In most provinces, government accounts for roughly three-quarters of typical revenues for government-aligned charities (see Figure 16). In the territories, government tends to play a significantly larger role, as in Newfoundland and Labrador. In New Brunswick and Nova Scotia, government has a smaller part in sector revenues.[19] Allowing for the variability in government revenues, other sources are proportionately fairly consistent, regardless of the province or territory. For core charities, government funding generally accounts for 12% to 14% of organizational revenues. It has a somewhat larger role in Quebec, Manitoba, and Nova Scotia, a much larger role in the three territories, and a somewhat smaller role in Ontario and Saskatchewan. In most provinces, earned income is 13% and 16% of organizational revenues: higher in Quebec and British Columbia and lower in the territories and Newfoundland and Labrador. Gifts and grants vary more than other revenue sources, accounting, on average, for about half of revenues or less in the territories and Quebec, compared to around two-thirds in Ontario, Saskatchewan, and Newfoundland and Labrador.

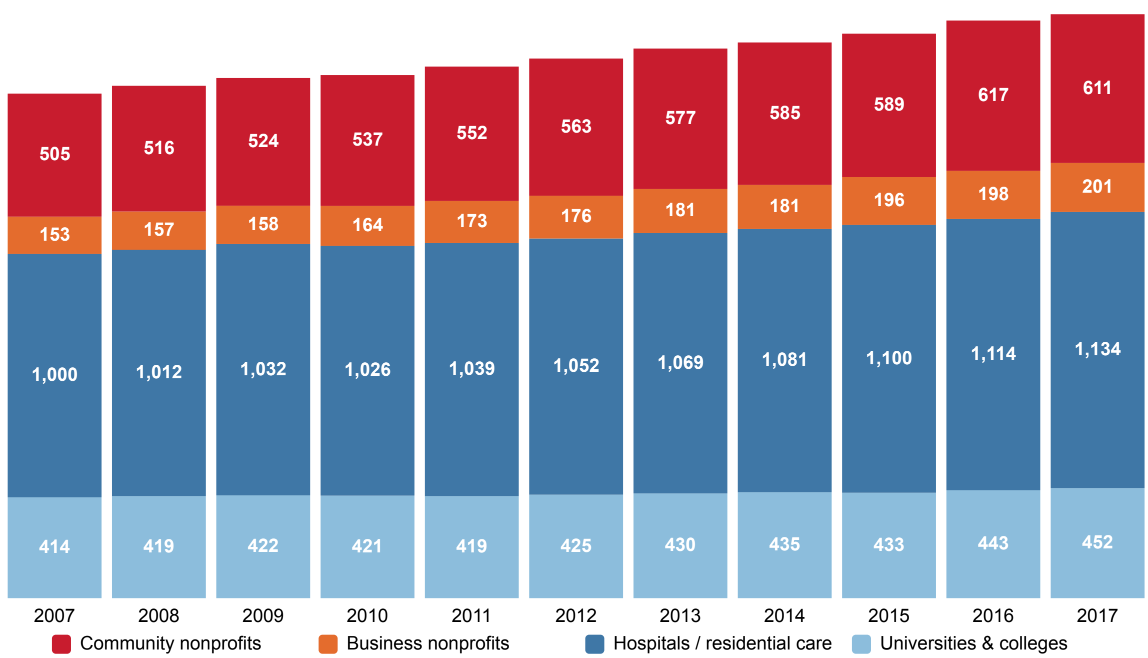
Figure 16: Average revenues of charities by major source, province, and government alignment, 2017



Human Resources

There are approximately 2.4 million jobs in the nonprofit sector, accounting for 12.8% of total Canadian jobs, according to the Satellite Account (Statistics Canada, n.d.). Government-aligned health organizations make up almost half of nonprofit jobs (47%): universities and colleges are about a fifth (19%; see Figure 17). Community nonprofits account for three-quarters of core sector employment (26% of total nonprofit jobs), and business nonprofits are the balance (8%). Overall, government-aligned and community nonprofits all have larger percentages of total employment than they do total revenues. Business nonprofits, on the other hand, account for a significantly smaller percentage of jobs than revenues (8% vs. 15% of nonprofit revenues). Since 2007, total nonprofit sector employment has increased by approximately 1.5% per year. Both business (2.8% per year) and community (1.9%) nonprofits have grown faster than the sector as a whole, while growth among government-aligned health organizations (1.3%) and universities and colleges (0.9%) has been slower.

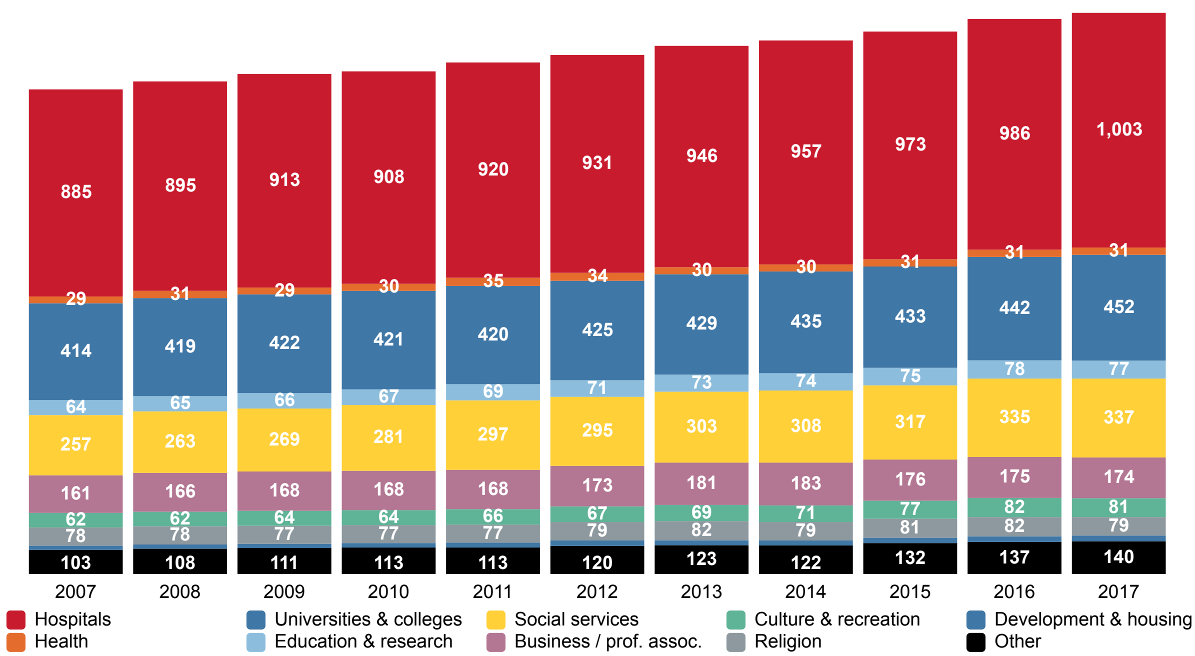
Figure 17: Number of jobs by subsector, 2007 to 2017 (,000s)



Activity Area

By specific activity areas, hospitals and universities and colleges (with their associated core sector activities of health and education and research) are by far the largest portion of total employment (see Figure 18) (Statistics Canada, n.d.). Social services organizations constitute the largest portion of the remaining jobs (16% of total employment), followed by business and professional associations and unions (7%), organizations working in the areas of culture and recreation (3%), religion (3%), and development and housing (1%). Organizations in the remaining activity areas collectively account for about 6% of total jobs.[20] Employment growth has been fastest among development and housing (equivalent to 2.9% annually), culture and recreation (2.7% annually), and social services (2.7%).[21] Growth has been slowest among religious organizations (0.1%) and business and professional associations and unions (0.8%).

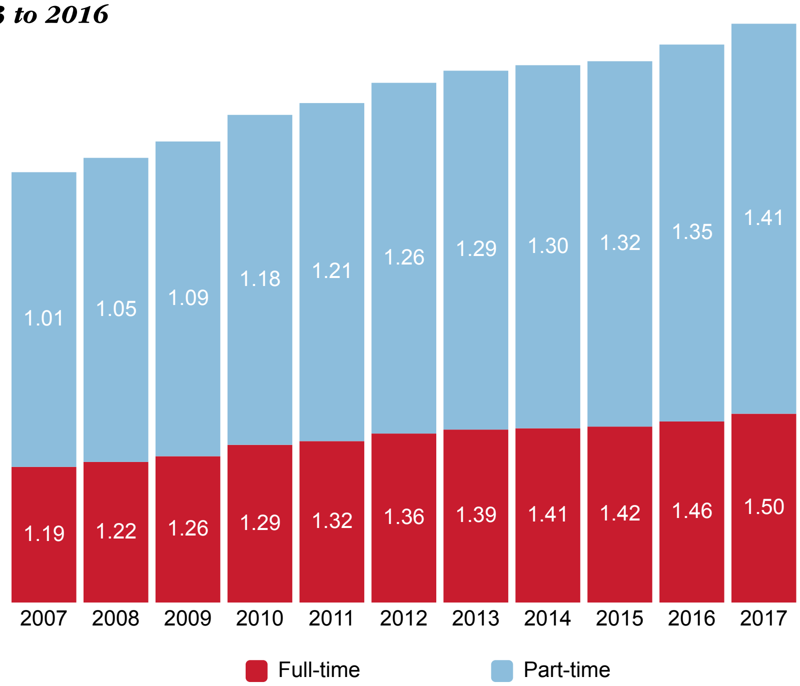
Figure 18: Number of jobs by activity area, 2007 to 2017 (,000s)



Comparative Trends among Charities

Employment in charities has increased significantly. The total number of full-time and part-time paid staff in charities has gone from 2.2 to 2.9 million since 2007, an increase of approximately 32% and equivalent to compound annual growth of 2.8% (see Figure 19). Overall, the pace of reported paid staff growth has been reasonably constant – the only major exception was 2013 to 2015, when it slowed significantly. While the number of both full-time and part-time staff positions has risen since 2007, part-time positions have increased more (39% vs. 27%). Once the more rapid growth in part-time positions is taken into account, fluctuations in the pace of growth in the two employment categories have been largely identical. The only major difference is that from 2013 to 2015, growth in part-time positions slowed to a greater extent. The more rapid growth of part-time positions has subtly reshaped the structure of employment among charities. Where at the start of the period, full-time positions accounted for approximately 54% of total positions, as of 2017 they account for about 52%.

Figure 19: Numbers of full-time and part-time paid positions in charities by year, 2003 to 2016

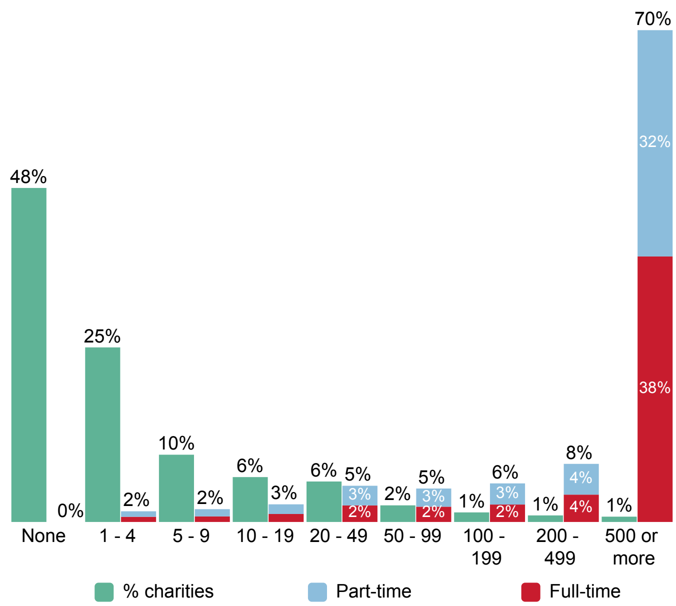


A key challenge to understanding employment trends in the nonprofit sector is how difficult it is to reconcile the number of jobs identified by the Satellite Account with the number of positions reported by charities. While these two sources differ significantly in terms of their scope, and they measure somewhat different concepts,[22] trend comparisons show significant discontinuities. For example, between 2007 and 2017, Satellite Account estimates indicate that the number of jobs associated with government-aligned health organizations increased by about 13% (Statistics Canada, n.d.). In comparison, the total number of full-time positions reported by equivalent charities increased by about 33%. Trends among NPISH nonprofits and unaligned charities were much closer – a full-time job increase of 21% among NPISH organizations versus 25% among unaligned charities. It is clear, however, that fully reconciling these estimates would require additional data.

Organization Size

Nearly half of charities reported that they had no paid staff in 2017, and just over a third reported fewer than 10 (full-time and part-time) staff members (see Figure 20). Collectively, charities with fewer than 10 paid positions account for about 3.4% of total charity employment, with part-time positions accounting for about 54% of all positions among these charities. Part-time positions predominate in all sizes of charities, accounting for more than half of total positions, except among charities with 500 or more staff, where they are 46% of positions. These largest charities, which make up just 1% of charities, represent 70% of total charity positions, while charities with 100 to 499 paid staff account for another 13%.

Figure 20: Full-time and part-time paid staff in charities by organizational size, 2016

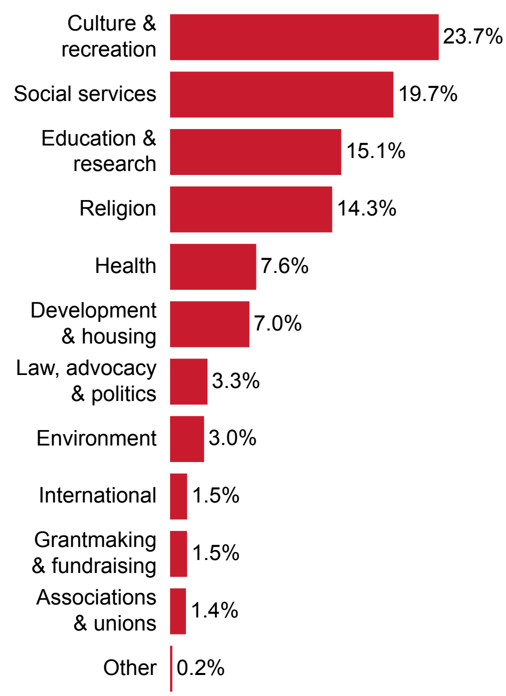


The Role of Volunteers

A distinguishing feature of the nonprofit sector is the extent to which it can supplement paid employees with voluntary labour. In 2013 (the most recent statistics available), 44% of Canadians volunteered for nonprofit and charitable organizations (Sinha, 2015). Collectively, these volunteers contributed approximately 1.96 billion hours, roughly equivalent to a million full-time-equivalent positions and a significant supplement to the 2.4 million paid jobs estimated by the Satellite Account. The net economic contribution of these volunteer activities is believed to be about $41.8 billion (Statistics Canada, 2019). If added to standard macroeconomic measures, these contributions would boost total nonprofit GDP by 28.7%.

The largest part of the economic value of volunteering is concentrated in culture and recreation, social services, education, and religious organizations, trailed by organizations working in the areas of health and development and housing (see Figure 21). This is very different from other aspects of economic value (such as contribution to GDP), in which health and education dominate (41.8% and 30.5%, respectively) and culture and recreation and social services are modest (3.7% and 9.8%; see Figure 2).

Figure 21: Economic value of volunteering by activity area, 2013



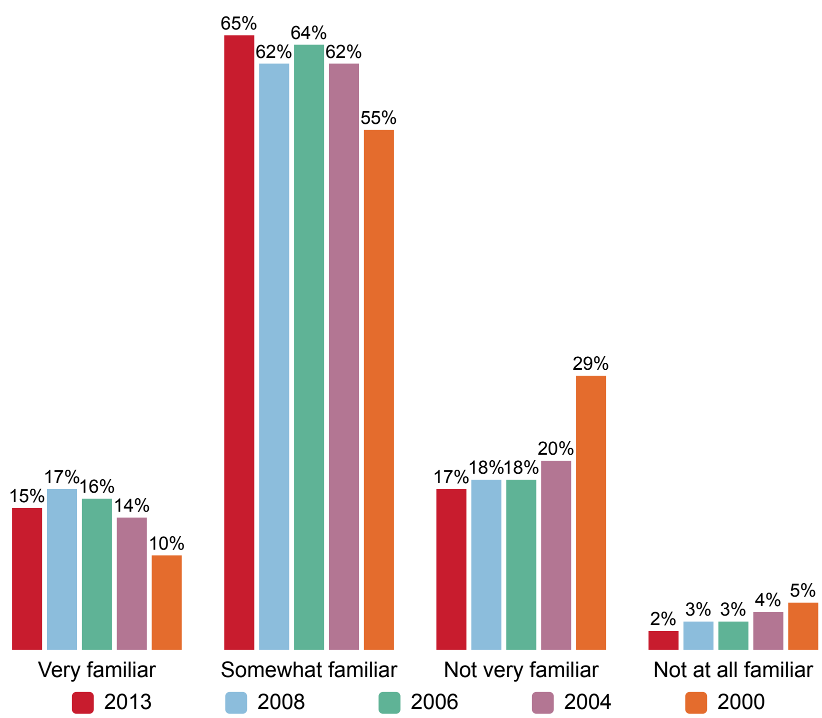
Public Opinion about the Sector

As institutions that rely on public goodwill – individual and corporate donations, volunteers, and government support in the form of funding and enabling legislation – charities must necessarily be concerned about public opinion. The most comprehensive study of Canadian public opinion in relation to charities and issues affecting charities is a series of surveys and associated reports entitled *Talking About Charities* (*TAC*). These surveys, which were commissioned by the Muttart Foundation, were carried out five times between 2000 and 2013. All the data presented in this section are drawn from these surveys (Lasby & Barr, 2013).

Familiarity with Charities

The vast majority of Canadians – eight in 10 – say they are familiar with charities and the work they do. However, only one in seven (15%) claims to be very familiar, while two-thirds (65%) say they are somewhat familiar (see Figure 22). Between 2000 and 2006, the proportion of Canadians claiming to be very or somewhat familiar with charities increased significantly (from 65% to 80%). Between 2006 and 2013, levels remained essentially the same.

Figure 22: Overall familiarity with charities, 2008 to 2013



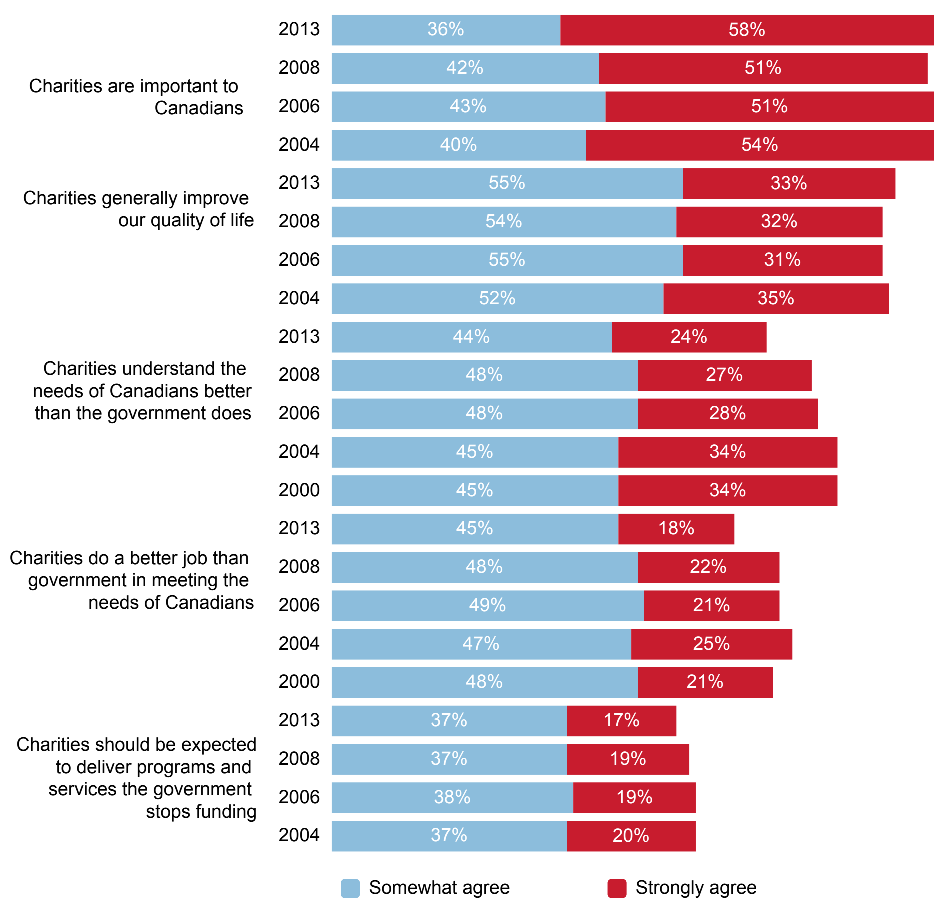
Several demographic variables are related to familiarity with charities, including age, education, household income, and religiosity. In all cases, the relationship is positive, meaning that older people, people with more education, people with higher incomes, and those who attend religious services more frequently are more likely to say they are familiar with charities and the work they do.

Familiarity with charities is an important factor in shaping attitudes and behaviour relating to them. For example, Canadians who are familiar with charities are more likely to donate and volunteer. They are also more likely to have positive attitudes toward charities and are more likely to believe that charities are important to Canadians, improve our quality of life, are very good at helping people, and are very good at spending money wisely. Those who are familiar with charities are also more likely to trust them and their leaders.

Perceived Importance and Attitudes toward Charities

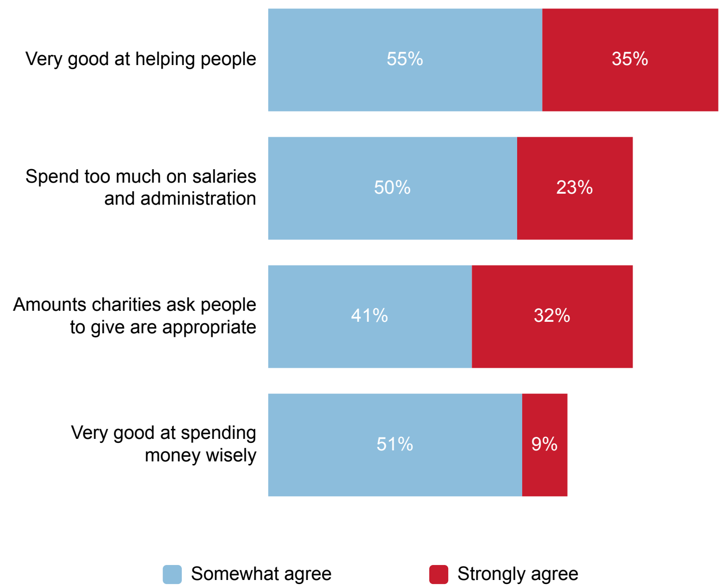
Almost all Canadians believe charities are important. In 2013, 93% agreed that charities are important to Canadians, and 88% agreed they generally improve our quality of life (see Figure 23). These proportions changed very little between 2004 and 2013. When Canadians are explicitly asked to compare charities to government, perceptions of their importance appear to dim somewhat, however. For example, in 2013 only about two-thirds said charities understand the needs of Canadians better than government or do a better job in meeting those needs. These proportions decreased between 2000 and 2013. Just over half believe charities should be expected to deliver programs and services that the government stops funding, a proportion that remained relatively stable between 2004 and 2013.

Figure 23: Perceived importance of charities, 2004 to 2013



Looking at other attitudes, the 2013 *TAC* survey found that 91% of Canadians think charities are very good at helping people (see Figure 24). Smaller percentages agree that the amounts charities ask people to give are appropriate (73%) and that charities are very good at spending money wisely (60%). Almost three-quarters (73%) think charities spend too much on salaries and administration.

Figure 24: Attitudes toward charities, 2013



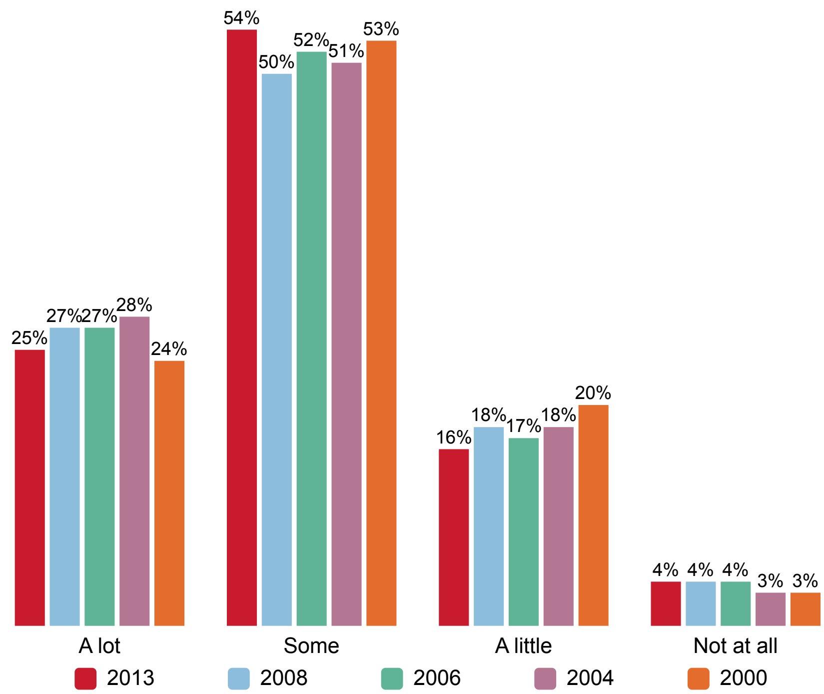
Only two demographic variables have a significant impact on views about the importance of charities: sex and education. Women are more likely than men to agree with four of the five statements about the importance of charities. The only exception is the statement about whether charities should be expected to deliver programs and services the government stops funding – men and women are equally likely to agree with this statement. University graduates are more likely than others to believe that charities are important and improve our quality of life. However, they are less likely to believe that charities understand the needs of Canadians better than government, do a better job at meeting those needs, or should be expected to deliver programs and services the government stops funding.

Other attitudes toward charities are most strongly related to age, sex, and religiosity. Older people are more likely than younger people to believe that the amounts charities ask people to give are appropriate and less likely to believe they spend too much on salaries and administration. Women and those who attend religious services more frequently are most likely to believe that charities are very good at helping people and spending money wisely.

Trust in Charities and Their Leaders

Canadians generally trust charities. In 2013, 25% of Canadians said they trust charities a lot, while 54% said they trust them somewhat (see Figure 25). Only 4% said they do not trust charities at all. Levels of trust in charities were fairly stable between 2000 and 2013.

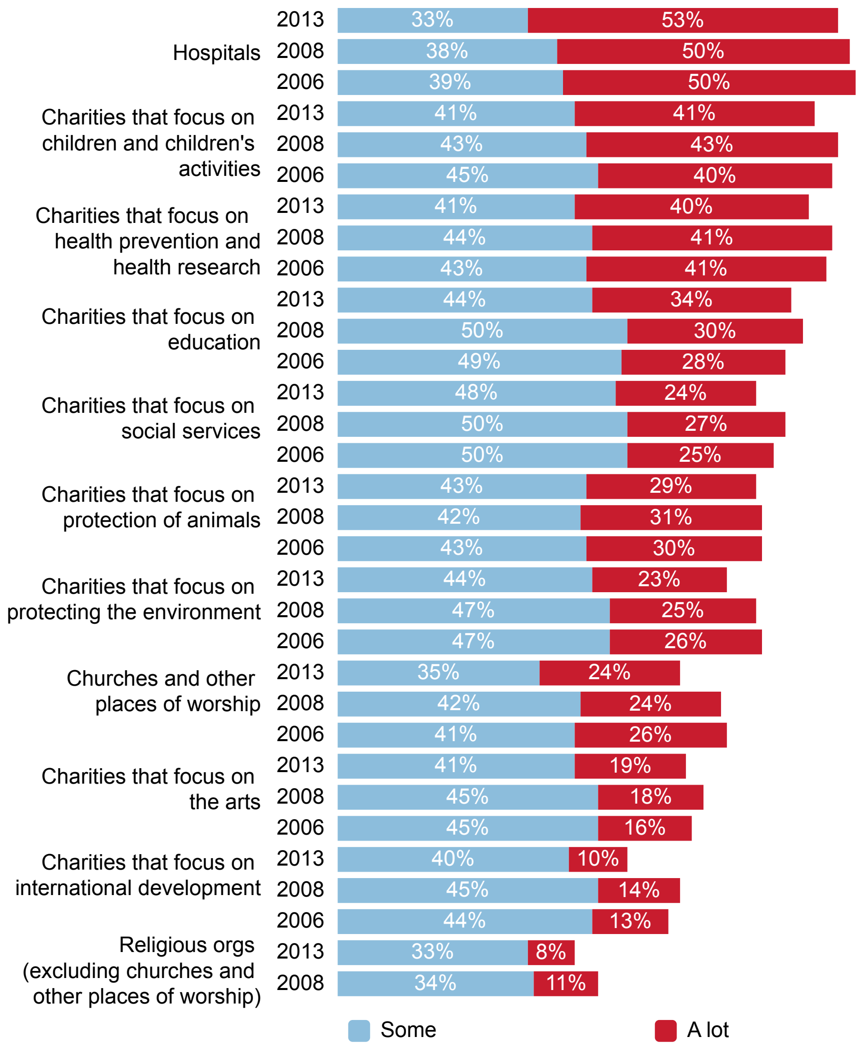
Figure 25: Levels of trust in charities, 2000 to 2013



Not all types of charities are, however, trusted equally. Charities working in areas related to health and children are trusted more than charities in general, while those working in the areas of environment, religion, arts, and international development are trusted less (see Figure 26). Charities focused on education, social services, and animal protection are trusted at about the same rate as charities in general.

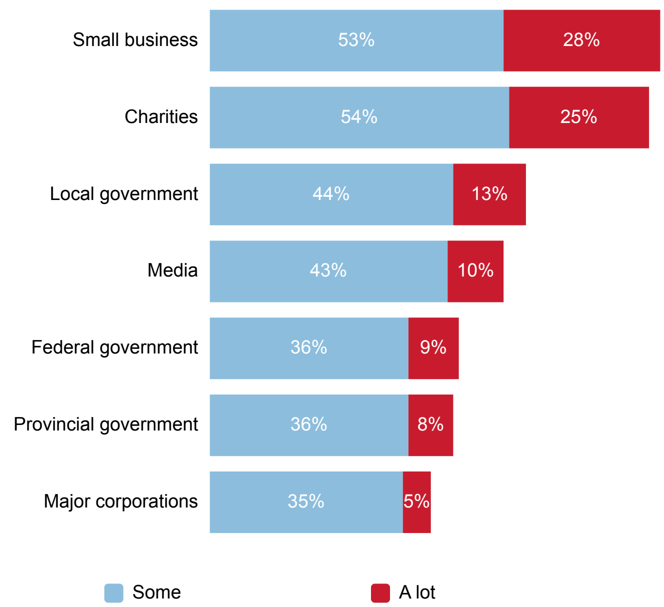
Levels of trust in most types of charities have been fairly stable over time, with a few exceptions. The proportion of Canadians who trust charities that focus on international development dropped from 59% in 2008 to 50% in 2013; those trusting churches or other places of worship dropped from 67% in 2006 to 59% in 2013; and those trusting environmental charities dropped from 73% in 2006 to 67% in 2013.

Figure 26: Levels of trust in specific charity types, 2006 to 2013



As a group, charities are trusted more than most other social institutions. Only small business is trusted more (81% of *TAC* respondents had some or a lot of trust in small business), while the media, government, and major corporations are trusted less (41% to 57% trusted them some or a lot; see Figure 27).

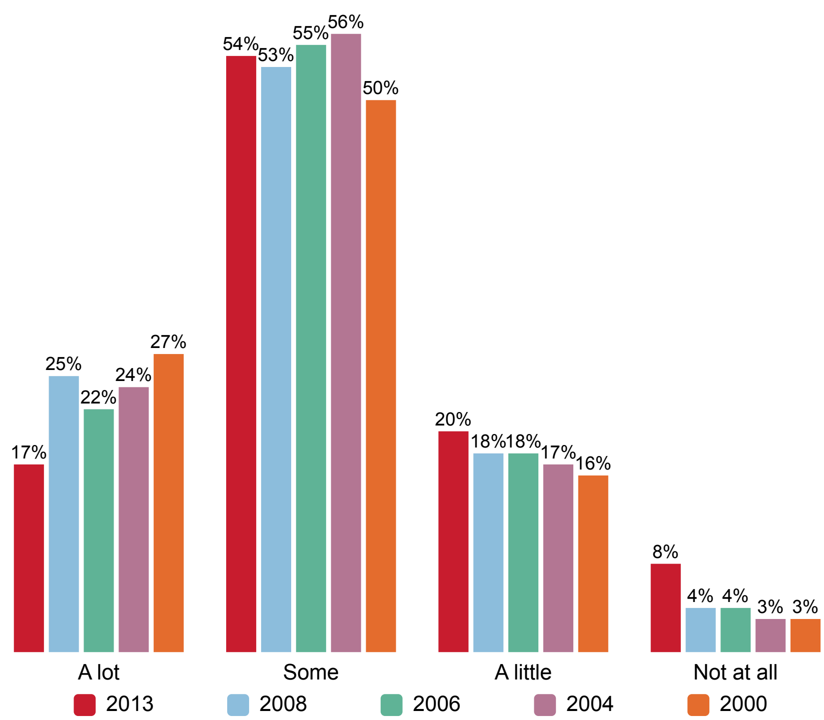
Figure 27: Levels of trust in other societal institutions, 2013



Several demographic and attitudinal variables are correlated with trust in charities. Women, university graduates, and those who attend religious services at least a few times a month trust charities more than other Canadians. Those who say they are familiar with charities also trust them more, as do those who think charities are important to Canadians, that charities spend money wisely, and that they are very good at helping people.

Charity leaders are trusted somewhat less than charities, with 71% of Canadians saying they have some or a lot of trust in charity leaders (see Figure 28). Only nurses and doctors are trusted more (95% had some or a lot of trust in nurses; 93% had some or a lot of trust in doctors), while government employees, business leaders, journalists, lawyers, religious leaders, union leaders, and politicians are trusted less (33% to 66% trusted them some or a lot). Trust in charity leaders has been less stable over time than trust in charities. In particular, the proportion of Canadians who say they trust charity leaders a lot decreased significantly between 2008 and 2013 (from 25% to 17%). Over the same period, the proportion saying they didn't trust charity leaders at all increased significantly (from 4% to 8%).

Figure 28: Levels of trust in charity leaders, 2000 to 2013



Education and religiosity are also related to trust in charity leaders, with increasing levels of each being associated with higher levels of trust. Higher incomes are also associated with higher levels of trust in charity leaders. Age, on the other hand, is inversely related to trust in charity leaders; that is, older Canadians trust charities less than younger ones. As with trust in charities, trust in charity leaders is higher among those who say they are familiar with charities and think charities are important to Canadians, spend money wisely, and are very good at helping people.

Conclusion

Overall, the picture painted by the data presented in this chapter is of a charitable and nonprofit sector that is growing more rapidly than the rest of the economy. Nationally, total real GDP increased by 11.1% between 2007 and 2017 (Statistics Canada, n.d.), compared to 26.3% for nonprofits and charities (Statistics Canada, n.d.). The national labour force increased by 10.2% (Statistics Canada, n.d.), while sector jobs increased by 15.7% (Statistics Canada, n.d.) and full-time charity positions by 27%. Similarly, the population of Canada increased by 11% (Statistics Canada, n.d.), while total sector revenues increased by 59% in nominal dollar terms (Statistics Canada, n.d.). By virtually all measures, community and business nonprofits have grown more rapidly than government nonprofits.

For government nonprofits, revenue growth has been driven by a combination of government funding and earned income. For business and community nonprofits, growth has been driven much more by earned income, with gifts and grants and government funding playing subordinate, though important, roles. The available evidence (i.e., for registered charities) shows that the number of organizations is not increasing appreciably. Instead, minus private foundations, numbers are decreasing, driven by a combination of organizational mergers and closures. Sector growth is centred on medium and large organizations, which have increased in size. The net effect of all this is that fewer organizations are doing more. A net positive of growth being concentrated among larger organizations, particularly among charities, is that the revenue bases of these organizations are more diversified. Given the consistently more rapid growth in earned income streams, this trend seems likely to continue. That said, this diversification is not entirely without cost, in that the pursuit of more diverse revenue streams produces more complex and interdependent organizational revenue mosaics. This can make it more difficult for organizations to focus on their missions and requires staff with particular skill mixes – which may prove particularly challenging with the increasing role of part-time workers.

In terms of public opinion about charities, Canadians consider charities important and have generally favourable opinions of them. Significantly, they have comparatively high levels of trust in charities and their leaders, and this trust appears fairly constant over time. That said, results should be viewed with some caution because levels of support may be somewhat abstract and "soft." As an example, when queried about their support for specific types of charities, opinion quickly becomes less effusive.

Finally, the data presented here highlight areas in need of further elucidation and exploration. While we have a good understanding of the internal composition and dynamics of the specifically charitable component of the sector, this is not the case for nonprofits, as their tax return information is not made public in the same way that T3010 information is. Relatedly, our understanding of the composition of the business nonprofit subsector – the fastest-growing component of the sector – significantly lags behind our understanding of the community subsector, which is largely made up of charities. Similarly, we see a significant need for work to classify charities according to their nonprofit subsector per the Satellite Accounts. At present, sufficient discontinuities exist between the two data sets, making it more difficult to compare results than it should be. Lastly, given the extraordinary growth among private foundations over the past decade, we suggest that this is an area needing considerable exploration.

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Statistics Canada. (n.d.) Table 36-10-0480-01. Labour productivity and related measures by business sector industry and by non-commercial activity consistent with the industry accounts. Ottawa: CANSIM (database).

Statistics Canada. (n.d.) Table 36-10-0613-01. Production, income and outlay accounts of non-profit institutions (x 1,000,000). Ottawa: CANSIM (database).

Statistics Canada. (n.d.) Table 36-10-0614-01. Gross domestic product (GDP) and income of non-profit institutions by activity (x 1,000,000). Ottawa: CANSIM (database).

Statistics Canada. (n.d.) Table 36-10-0615-01. Employment in non-profit institutions by activity (x 1,000). Ottawa: CANSIM (database).

Statistics Canada. (n.d.) Table 36-10-0616-01. Gross domestic product (GDP) of non-profit institutions by sub-sector (x 1,000,000). Ottawa: CANSIM (database).

Statistics Canada. (n.d.) Table 36-10-0617-01. Employment in non-profit institutions by sub-sector (x 1,000). Ottawa: CANSIM (database).

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Notes

[1] Satellite accounts are special-purpose vehicles that produce measures of related economic activities not already recognizable in standard economic measures. An example of this is the satellite account for tourism, which incorporates portions of a number of industries, including transportation, accommodation, and food and beverage services, among others.

[2] Because the two series do not appear to be entirely compatible, this chapter will draw on the most recent series, available on CANSIM tables 36-10-0613-01, 36-10-0614-01, 36-10-0615-01, 36-10-0616-01, 36-10-0617-01, and 36-10-0618-01.

[3] Per the *Satellite Account on Non-Profit and Related Institutions and Volunteer Work* handbook, to be considered nonprofit, organizations must be 1) institutionalized, 2) self-governing, 3) voluntary, in the sense of being non-compulsory and drawing meaningfully on voluntary contributions, 4) significantly limited in the extent to which they can return any profits generated to parties such as owners, directors, or employees, and 5) not be controlled by government departments of economic and social affairs (2018, New York: United Nations).

[4] That said, the T3010 return does collect sufficient information to support a reasonably good, though not perfect, mapping onto these frameworks.

[5] Subsectors discussed will be government education (universities and colleges) and health (hospitals and residential care facilities), community nonprofits, and business nonprofits. For more details on the ICNPO, readers are referred to Salamon and Anheier's paper (Salamon & Anheier, 1996).

[6] Hospitals account for a smaller percentage of nonprofit GDP than government-aligned health organizations because a portion of the government-aligned organizations are formally classified as social services organizations.

[7] In addition to organizations not elsewhere classified, the other category includes organizations working in the areas of international development and relief, law, advocacy and politics, and the environment.

[8] Only nominal GDP data is available by activity area.

[9] As will be seen below, the 2017 spike for community nonprofits appears to be due to fluctuating revenues of one very large organization.

[10] Total revenues for charities are somewhat higher than for the sector defined by the Satellite Account because charitable revenues include public and separate school boards and libraries.

[11] Paralleling the national accounts framework, hospitals and residential care facilities and universities and colleges are considered government-aligned charities. However, unlike in the national accounts framework, public and separate school boards and municipal libraries (considered part of the government sector in the national accounts and excluded from the Satellite Account) are considered government-aligned charities in this analysis. The net effect is to significantly boost the importance of government-aligned entities as compared to the Satellite Account.

[12] 35% if MasterCard Foundation is included; 26% if it is excluded.

[13] We say conservatively because this figure excludes the very considerable role of MasterCard Foundation: if it is included, total private foundation revenue growth over the period reaches a whopping 244%.

[14] In addition to charities not elsewhere classified, the seven subsectors are arts and culture, development and housing, international development and relief, law, advocacy and politics, sports and recreation, and the environment.

[15] Assignment to organization size classes was done on a constant dollar basis.

[16] The "typical" charity revenue profile is computed by determining the percentage of total revenues from each given revenue source for each individual organization and then computing the average across all charities. The "aggregate" revenue profile is computed by summing all revenues, for all charities, from a given source and dividing them by total charitable revenues. In simple terms, the first approach can be thought of as "one charity, one vote" and the second as "one dollar, one vote."

[17] Judging from the descriptions charities provided, a significant portion of income recorded as "other" in T3010 filings is actually earned income.

[18] Core hospital charities are typically volunteer auxiliaries or organizations that are in some way associated with a hospital. A similar pattern is seen with core university- and college-related charities.

[19] The apparently very small role of government in Prince Edward Island appears to be driven more by the composition of the charitable sector than variations in government funding.

[20] In addition to organizations not elsewhere classified, the *other* category includes organizations working in the areas of international development and relief, development and housing, law, advocacy and politics, and the environment.

[21] Employment in the *other* category has grown even faster (3.1%).

[22] As measured by the Satellite Accounts, jobs include both employee and self-employed jobs and do not distinguish between full-time and part-time employment (though it is clear from the reported average hours worked that the bulk of jobs must be full-time), while charities report the numbers of full-time and part-time/part-year positions.

Biography

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Part I Introduction

Intersections and Innovations: Change in Canada's Voluntary and Nonprofit Sector

State of the Sector and Public Opinion about the Sector

Four Keys to Make Sense of Traditions in the Nonprofit Sector in Canada: Historical Contexts

The Muttart Foundation

Chapter 3

Four Keys to Make Sense of Traditions in the Nonprofit Sector in Canada: Historical Contexts

Dominique Marshall, Carleton University

The past of the voluntary and nonprofit sector might be the closest researchers have to a laboratory to help them make sense of the sector's operation and explain its transformations. Looking at this depository of knowledge can help us to see how people have faced difficult and intricate situations and to offer alternative viewpoints. It can show if, when, and how "philanthropic," "charitable," and "voluntary" activities, to use terms that preceded the notion of "nonprofit," have contributed to the making of cohesive social groups.[1] In this spirit, I have designed a list of four keys. They concern four types of social relations: political, aristocratic, religious, and economic. Together, these keys can help practitioners and students identify past traditions of nonprofit activities in Canada and make sense of them. In the words of American historian Peter Stearns (1998), the study of past institutions and ideas might even "encourage habits of mind that are vital for responsible public behavior."

European Kingdoms

To this day, Canada's voluntary and nonprofit sector is marked by a tendency to rely on public powers. This distinction is largely due to the ways European kingdoms ruled their subjects, at home and in their colonies, in the 1600s and 1700s. During this period, Canada was under the rule of French and English monarchs and of the commercial enterprises of hunting and fishing, such as the Hudson's Bay Company (1670–1870), that they chartered to manage the territory. In the colonies, the number and the means of voluntary institutions, that is to say those that were free from state interference or control, were limited. The welfare of early European settlers was more incumbent on public authorities than it was in the mother countries. Settlers arrived from societies where the poor were a large majority, and they rarely came by choice; the European population of Canada was sparse, nowhere near as abundant and prosperous as European rulers wished. A large proportion of soldiers, fishermen, farmers, and fur traders arrived in the colonies with no family to support them in times of hardship; newcomers returned home in droves after a few years in Canada, or moved south. For all these reasons, when famine loomed in New France in the winter of 1758/1759, settlers relied on the governor and his intendant to organize the distribution of free grain. Since local funds that came from feudal levies and trade duties were not sufficient, these colonial administrators requested more grants from the coffers of the metropolitan states.[2]

Many efforts to settle North America can be seen as a direct consequence of joint actions by European governments and the churches of their own kingdoms. These actions were integrated: in a “pre-secular” or “confessional” period, when all acted in accordance with the Christian theological system, governments and churches were too linked to speak of “non-government” organizations. The enrolment, clothing, and travel at public cost of approximately 800 *filles du roi* (1663–1673), young women destined to marry the single men of New France, represented a way to empty church-run orphanages in France. In the colony, a religious order, the Ursulines, organized their arrival. Similarly, a third of the French veterans of the Iroquois Wars, who were offered Canadian land on the conclusion of peace (1667), remained in the colony: a combination of farming and fur trading gave these 400 men a better income than most expected in the metropolis.

British governments used colonization as a means to take care of the poor even more systematically than their French predecessors had, and most of the time, voluntary associations were in charge of these operations. During the British rule of Canada (1713–1867), the colonies of North America offered a spillway for people who lacked fortune at home. Until the 1840s, in the colonies of British North America, as in New France, the state played a large role. As Judith Fingard has shown, “poor rates” (a property tax levied to support the poor); grants from the assembly and the governor; and military rations for disbanded soldiers, Loyalists, and other refugees all awaited the development of a mature philanthropic sector (Fingard, 1974; Curtis, 2018; Cooper, 2019). Between 1869 and 1932, voluntary children’s aid societies and churches sent more than 100,000 poor and orphaned children from Britain to work in rural families of Canada. Headed by municipalities and lay or religious charities of different denominations, the transport of “Home Children” was financed by donations, and by the work of the children themselves. Similarly, the best known of these poor peoples’ migrations, the migration of more than 500,000 Irish people to British North America caused by famine at home (1845–1849), was a direct result of the hardship caused by the imposition by the island’s British rulers of the Poor Laws on its indebted property owners. On arrival, emigrant families felt the scourge of epidemics. Cholera, for example, left many children orphaned; their care became the responsibility of charities, clerics, and municipal employees. A large proportion of famine migrants later moved to the United States, but for those who stayed, Catholic parishes became their main social and cultural organization, a base from which to start participating in the new society.

In this context of strong state influence, Canadian public employees have long enjoyed habits of work that gave them more influence than their counterparts had in Europe, particularly in ways that could restrain the development of independent institutions. Colonial bureaucrats were an ocean away from the pressures of European populations, and were less encumbered at home by requests from a scattered population. Decades after most managerial links with Paris and London were officially severed, the Canadian tendency to rely heavily on public powers to manage the social affairs of the country persisted.

This is especially true for the "Indian Department," which, for diplomatic reasons, remained closer to London until 1860 than most departments, and which, in the absence of full Indigenous suffrage until the 1960s, continued to be subject to fewer democratic checks than other sectors of Canadian public life. Treaties signed between European kings and Indigenous chiefs, beginning in 1725, regulated the lives of Indigenous peoples on large expanses of Canadian soil and were reminiscent of the Poor Laws of the old country. The 1763 Royal Proclamation of King George III created a vast "Indian Territory" west of the Appalachian Mountains, and it is still considered an "Indian Bill of Rights" of sorts. In need of military alliances with Indigenous peoples to keep other imperial powers at bay, the British Crown managed to combine the goal of guaranteeing space and resources for "Indian" welfare with its wish to keep control of Western expansion away from the British settlers themselves. This led to state promises of medicine chests to ensure the welfare of Indigenous peoples, promises that were rarely kept in full. It also explains why, during the colonial period, philanthropic interests for Indigenous peoples were stronger in the cities of Europe than they were among the elites of the American continent (Anderson, 2006).

A contemporary effect of this joint history of complementarity between the state and nonprofit sectors is the way in which the latter often acts as a pioneer in fields not yet accepted as state responsibility, as is attested by the vanguard medical work done by several of the largest Canadian charities today.

The history of contemporary Canadian-based transnational humanitarian organizations is similarly connected with the colonial adventures of European states. Some of the top 10 nonprofit organizations of Canada, both in terms of budget and of donations received, collaborate closely with Western governments and churches – World Vision Canada and Plan International chief among them.[3] For most of them, fundraising methods and publics, networks of institutions in the Global South, and their structures of governance and ambitions represent a mixture of Western traditions of imperial charities and public and communal practices encountered among societies they aim to help.

Aristocratic Social Structures and Values

Coming from societies founded on an aristocratic order, early settlers also brought with them a political culture of entitlements and responsibilities, regulated by the law, that left its mark on current Canadian notions of charity. Even in today's democracies, many charitable organizations seek the presence of rich and noble people on their boards as a warrant of value, dependability, and trust. Today's debate about the degree to which the prominence of celebrities from the realms of entertainment and sports entails societal obligations on them can be understood in these terms.

In the feudal order, based on hereditary land ownership, society was divided into stable ranks. One's immutable place was either among the rich or among the poor and was associated with duties toward the welfare of all. Giving to the Church could ease one's salvation, and receiving alms was an entitlement of the poor. The French feudal system of land allocation and occupation of central Canada, from 1624 to 1850, regulated the lives of tenants, who represented more than three-quarters of the population of what is now Quebec. There existed no public system of poor relief, but, in exchange for their *censitaires*' work and money, the *seigneurs* owed them protection, the provision of sufficient land to sustain their family, mills, commons, courts of law, and hunting and fishing rights. In such a social order of uneven and reciprocal relations, giving to the poor was the justification of the upper-class privileges (Robinson, 2019; O'Leary McNeice, 2020). So, too, was maintaining churches and the array of social functions churches performed, including education, welfare, and the promotion of the arts. Having said this, the North American labour market presented more economic opportunities than in many parts of the Old World, and feudalism left a lesser mark on philanthropy than in closed societies (Dechêne, 1992).

Originating from late medieval times, Britain's Poor Laws never made it to the statutes of its Canadian colonies. But many of the Poor Laws' principles and institutions played a formative role in the history of the voluntary sector in the country, including means tests, categories of poverty (deserving, non-deserving, dependent, or able-bodied), vagrancy laws, poor rates, workhouses, and poorhouses. Until 1349, a voluntary system of relief of the poor had prevailed, which was under the responsibility of the clergy and funded by charitable giving and other Church income. When plagues, famines, and primitive industrial transformation tested the limits of this nonprofit sector, English monarchs inaugurated a public system of poor relief: they instructed local governments within each Church district to take responsibility for the vagrants and beggars of their territory. Obligatory taxes, levied and spent by local governments, guaranteed a supply of money for the relief of the indigent, as well as the subsistence of the working poor. In this way, the feudal system of serfdom was adjusted to keep agricultural workers in their locality to toil the soil of the landowning nobility and prevent social unrest. The Poor Laws heavily restricted the right to assistance by tying relief to one's proof of continuous residency in a district; limiting begging licences to people who local authorities determined to be too ill, old, or disabled to work; punishing or imprisoning poor people deemed able to work, or those who were found away from their parish; and contributing to the maintenance of wages under the levels of subsistence. The Poor Laws of the late Middle Ages survived two overhauls, in the 16th century and the early 19th century. Their implementation required the construction of a growing network of local and public institutions for the "deserving" poor, where conditions were most often wanting, and which would serve as models for European charities and governments of Canada.

Churches and Religions

Churches have been as important as colonial states for the development of nonprofit and voluntary activities for most of Canadian history. Past religious values and traditions have left a deep imprint on current volunteer activities, religious and secular alike.

In the domains of welfare, culture, and education, established churches long represented a state within a state (Greer & Radforth, 1992). Canadian governments provided the main Christian churches with authority in large sectors of public life, even if there was no single "established" church in Canada, as there is in Britain. This was accomplished through licences, laws, grants, or yearly allocations of money. Mutual convenience explains most collaborations between civil and religious authorities.

For the first 50 years of French rule, the Catholic Church enjoyed exceptional leeway in the creation of parishes and the control of religious orders. Financed by charitable donations from the motherhouse of French Catholic orders and patrons and supported by trading entrepreneurs and royal envoys, Jesuits, Sulpicians, and Ursulines established parishes, schools, and seminaries to Christianize Indigenous peoples. These religious orders kept the European public interested and appealed to rich lay people by sending exotic accounts of their trials and triumphs in ways that are reminiscent of modern humanitarian NGOs. The making of New France into a royal colony (1663) put an end to such great autonomy. The king became more involved in the regulation of religious institutions. They received land, meager grants, and the right to raise tithes (a tax taken from settlers to support the clergy livelihood and activities) and were officially entrusted with the welfare and the education of the colony, for European settlers and Indigenous peoples alike. Charitable donations from France remained their principal income: "the Ursulines received not only pious bequests but also gifts of textiles, beds, bedding, towels, pharmaceutical products, religious items, preserves, dried fruit and children's clothes" (Canadian Museum of History, n.d.).

The Canadian Indigenous peoples who came under the authority of evangelizing Christian missions encountered alien institutions of education and welfare. For more than 14,000 years before European colonization, social practices and spirituality had been based on communities and the lands they travelled and were transmitted orally within families. Memories and histories exist of early instances of Indigenous support of French immigrants in time of famine (1629), of military and economic leverage from Indigenous peoples, and of influence on the practice of Christianity and the administration of justice. By the early 1800s, with the rise of trade and settlements from abroad, and peace between settlers, these possibilities of reciprocal institutions gave way to confinement on reservations, compulsory use of European institutions, prohibitions of spiritual practices, and exclusion from the benefits of citizenship. Christian nonprofit institutions of welfare and education were central to both types of processes, which were administered in tandem with federal bureaucrats and traders. Meanwhile, Indigenous people who engaged in Christian work, "bridgeheads of Empire," to use the term of historian Bronwen Everill (2012), translated, mediated, and, at times, appropriated the teaching and methods of nonprofit institutions. For instance, this was the case of Peter Jones, or Kahkewaquonaby, an Ontario Ojibwa (1802–1856) pioneer of written defences of Indigenous land rights.

By the end of the French rule in 1760, approximately 300 men and women belonging to Catholic religious orders were helping parish priests and churchwardens in the performance of these charitable functions. Patterns survived the 18th century: European voluntary financing of Catholic missions received a new impetus with the creation of the Society for the Propagation of the Faith in 1822. Canadian-trained missionaries started going overseas themselves from the mid-19th century onward, and donations from Canadians supplemented those from the Old World.

The end of the French rule of Canada also opened the way for large Protestant settlements, the creation of Protestant parishes, and the expansion of Protestant missions for Indigenous peoples and settlers. Up to then, Catholic authorities of New France had tolerated Huguenots unevenly over time, but the colony never became a harbour for persecuted Protestant movements from France, as did Massachusetts, Switzerland, or South Africa. British rulers encouraged Protestant immigration but stopped the arrival of Catholic nuns and brothers. The diversity of Christian denominations in Canada then grew: from the increasing French Catholic population to the new Irish Catholic settlers and the Protestant dissenters arriving from Scotland, Northern Europe, and, after 1775, the US (Faulkner, 2006). This diversity helps explain the continuing authority of churches over social matters. At the end of the 18th century, British colonial authorities were anxious to prevent the alliance of the former French colonists, still the majority of the population of Canada, with the Republican independence movement of the US. To this end, they secured alliances with aristocratic French-Canadian elites, including religious orders that could use their authority over institutions devoted to curing and teaching to encourage a traditionalist view of the world.

Religious values were already in great flux in Europe when people started to emigrate to North America, in ways that would soon enhance the influence of middle-class parishioners in the conduct of the voluntary sector. As early as the 16th century, Catholic understandings of the poor as people placed by God in an unchanging status of grace had been challenged by "protestant" notions of predestination and self-examination. There was also an institutional dimension to continental Reformations: poor-relief, almshouses, and administration of "the common chest" were usually removed from Church control and placed into the hands of local governments. In reaction, Catholics embarked on a series of "counter-reformations," which were equally important for the history of the voluntary sector. Following the rise of literacy in the wake of the trading middle classes, the growing belief in the possibility of self-improvement was changing ideas of charity – for donors and recipients alike. Christian "concepts of right and value," to use the words of English scholar Robinson (2019), were now divided: "one … based on property, especially property of land, and the other based on the human person." For the story of the voluntary sector, this new individualism meant that most of the time, medieval notions of the "deserving" poor became harsher – and with them, charitable institutions could be meaner. The same individualism, however, contained new possibilities for the recognition of human suffering. This dual "liberal" tradition of "parsimony or resentment" and of "a scripturally blessed and commanded open-handedness based in faith and love" – which was the very notion of fairness and mercy that informed the collection of tithes in Catholic parishes – helps explain much of the later fate of voluntary organizations (de Swaan, 1988; Robinson, 2019; O'Leary McNeice, 2020).

By the mid-19th century, the increased concentration of people in large agglomerations, which presented new challenges in the form of rural migrants and industrial and service workers, challenged the scale of nonprofit and voluntary arrangements based on parish and small, local congregations. Among Protestants and Catholics, lay elites and their associations accumulated more influence in the running of Christian voluntary institutions. In addition, more non-Christian and non-institutional religious charities were organized in Canada, such as the Montreal-based Hebrew Benevolent Society (1863). It was the ancestor of the Baron de Hirsch Institute, informed by the Jewish commandment of *tzedakah*, in which recipients and donor establish a reciprocal relationship.

Church governing bodies adapted their theology in reaction to these social movements, anxious as they were about losing membership. From the end of the 19th century, the Social Doctrine of the Catholic Church and the Social Gospel of Protestant churches enjoined people to express their faith by doing practical work among those dispossessed by industrial society. These concerted attempts among the faithful to address social problems by learning about them led to large social surveys, the founding of schools of social work (Toronto, 1914; Montreal, 1931), the encouragement of worker and employer unions, and the creation of national associations such as the Social Service Council of Canada (1912) and the École sociale populaire (1911). The movement embraced a large spectrum of political aspirations, from conservative charity to socialist calls for social justice. It declined after the First World War and was revived in the late 1960s with a comparable drive toward social action that inspired the formation of coalitions, centrally involving religious organizations, to address domestic poverty, corporate responsibility, world development, and environmental issues.

For one century, religious movements provided the lion's share of the funds required for these renewed programs of recruitment and training of their clerical members and the construction of larger places of worship, education, welfare, and recreation. To many newcomers in cities, (Canadian rural workers and immigrants from other countries alike) and to city workers employed by the growing industrial sector, religious-affiliated institutions of all kinds – from newspapers and playgrounds to youth clubs, women's temperance unions, and religious communities dedicated to social work – provided a bridge to their new surroundings, a ground to compete with established citizens, and, at times, a path to social ascension (Ferretti, 1992). The circles of average practitioners of social work and charitable donors expanded from the respectable bourgeoisie to members of the working class. These volunteers included an increasing proportion of women, far beyond the nuns and the patroness ladies of former times.

Freed by the industrial revolutions from demanding labour, middle-class women comprised a new and abundant source of volunteer labour and religious communities performing new social services. The voluntary nature of this type of work and its under-enumeration in national censuses are part of a general understatement of its significance in the past of Canadian public life, among women in particular.

Women did not confine their organizing to service delivery, however. Rather, women formed Canada's oldest large-scale advocacy group in 1893, when 1,500 women came together in Toronto to form the secular, nonpartisan National Council of Women. It quickly became a nationally federated organization with the aim of uniting women of "diverse backgrounds and beliefs providing a 'platform, large, strong and broad enough to furnish standing room for all'" (Strong-Boag, 1976: 84). In turn, this trend would transform the social role of the Canadian state. The promotion of volunteerism combined with an interest in social change is also the case for children and youth organizations, such as the Girl Guides and Scouts, which, since their inception in the early 20th century, have trained tens of thousands of youth of every generation into, among other things, community service. This unpaid work, which reached peaks in wartime, can be seen as one important basis for the rise of and advocacy for children's entitlements over the last century (Trepanier, 2015; Alexander, 2017).

Christian churches further accompanied the great changes of the 19th century, creating models for modern times by directly sponsoring immigration to Canada. Between its arrival in Canada in 1882 and 1914, the Salvation Army – today one the country's 10 largest charitable organizations – brought more than 150,000 immigrants under its patronage. The same religious volunteerism has presided over the arrival of most refugees in the country since then. Forty years after its creation in 1979, the Private Sponsorship of Refugees Program, the model of resettlement by which the federal government sponsors the arrival of one refugee each time private citizens support one, is now imitated by numerous countries.

From 1929, the alliance between churches and the state was revived by income tax exemptions for charitable donations, together with large government funding for charities (which today represents on average two out of three dollars of revenue for the sector). The conservative economic policies of the last four decades have increased the role of philanthropic institutions, and of fundamentalist and evangelical charities among them. Meanwhile, critics from churches of liberal inclination (among others) have been calling for an expansion of the definition of "charitable status" – toward communities, rather than individuals; environmental questions; development; and prevention (not just alleviation) of poverty.

To this day, the place of religious charities among Canada's 86,000 charities remains prevalent, comprising about 40% of the total, the majority being houses of worship (Statistics Canada, 2004). Religious charities are also the primary recipients of giving, attracting 41% of donations, although this has declined from 46% in 2007 (Turcotte, 2012; Lasby & Barr, 2018). Islamic charities count among "Canada's top-rated charities"; the Jewish Community Foundation of Montreal ranked fourth among registered charities ranked by donations; and World Vision, founded in 1950 by Robert Pierce as a service organization to meet the emergency needs of missionaries, is Canada's largest charity. In sum, the longevity of the influence of churches has depended on an extraordinary ability to adapt to deep transformations. With increased secularization of society, further transformation undoubtedly lies ahead.

Work and Business

Cooperative associations of workers have played a considerable part in the history of the nonprofit sector. In preindustrial times, guilds provided for the welfare of families of skilled artisans, particularly in the event of a worker's death, sickness, or retirement. Similarly, communal arrangements to guard against fires, storms, and hardships and pool resources for grazing and for times of high demand in the calendar of harvests represented a central feature of feudal communities. As places of work became larger and more impersonal, trade unions formed around the same imperative. Better known for their political pressures, strikes, and collective bargaining, early associations of working-class people and farmers quietly created mutual funds for funerals and benefits for surviving families. A similar form of pooling of university colleagues' resources for healthcare in Dallas, Texas, in 1929 started the Blue Cross and Blue Shield movement. Soon popular among railway workers and teachers, that nonprofit health-insurance institution entered Canada a decade later. The trend was partly influenced by the development of the insurance industry and the fading of the old Christian belief that insurance represents a "bet against God."

In parallel to these work-based organizations of mutual benefit, the 19th century saw the multiplication of fraternal groups formed around shared needs for community service, recreation, patriotism, medical support, social distinction, and self-help. Organizations such as the Elks of Canada (1912), Kiwanis clubs (1916), Odd Fellows, Shriners, and Lions included activities of assistance and aid to people in hardship, within the group and toward their communities. Many revolved around ethnic and cultural belonging. This trait of fraternal orders has at once made for histories of racial, ethnic, and sexual exclusion as well as histories of endeavours toward equality, as Theda Skocpol, an American historian of working-class families argues (2003). Her research shows that being part of fraternal associations was crucial to a person's sense of place in public life. In Canada, "the many fraternal organizations, mutual-assistance bands, temperance societies and antislavery groups formed by 19th-century blacks were almost always associated with one of the churches" (Walker, 2015; Patterson, 2020). Canadian people with disabilities have done the same, by creating self-help organizations, such as the Canadian National Institute for the Blind (1918) and Disabled Peoples International (1964), a transnational organization with strong connections to the Mennonite Central Committee Canada (1920) (Patterson, 2020). Such fraternalism lived side by side with uninterrupted traditions of informal and neighbourly communalism, especially in rural communities. Larger forms of assistance were often inspired by them: such was the case of the fundraising "socials" of Ukrainian origin in the prairies, crucial to the acquisition of the capital required for young couples to start an independent material life. On the whole, the quality of democracy of North America, Skocpol (2003) contends, has suffered because of the mid-20th-century transition "from membership to management in civic life."

Coming from the opposite side of the work contracts, associations of employers have played an equally significant role in the history of the nonprofit sector. Traditions of what is now called "corporate welfare" hark back to preindustrial times, when the master of a workshop received parental prerogatives over apprentices and journeymen in exchange for their teaching and subsistence. It is in this spirit that the main mode of enticement of workers to go to New France was indentured service to companies or individuals in the colony, a form of employment and welfare policy when the French labour market did not suffice. The 5,000 *engagés* of this type who came to New France were subject to their employer for the three years of their stay in Canada, in exchange for room, board, travel, and a small allowance; only one in six chose to stay in Canada after the contract expired. The Hudson's Bay Company continued to do the same well into the 20th century, with land grants, "pensions," and schools for its employees' families.

Informed by religious and liberal beliefs, later industrial employers contributed to charities. Montreal shoe manufacturer and insurance broker Herbert Ames represents a leading example (Regehr, 2013; Ames, 2016). Ames headed the Canadian Patriotic Fund (1914–19), "a private fund-raising organization … established to give financial and social assistance to soldiers' families." Today, about 76% of businesses in Canada give money to charities (Clarke & Ayer, 2011), although this represents less than 2% of the total revenues of this sector (Statistics Canada, 2007). The notion of "nonprofit" organization derives from these new financial conditions: in the early 20th century, the provincial and federal governments used their taxation powers to encourage these trends, either by using consumer taxes on luxury goods to distribute grants to welfare organizations or by creating systems of income tax exemptions for charitable purposes.

Canadian business philanthropy, however, has a weaker tradition than in the United States and has often been met with a degree of suspicion. An example of this is the important role played by the US-based foundation of Scottish-born steel industrialist Andrew Carnegie in the construction of 125 public libraries in Canada between 1898 and 1918, which was part of "his broader belief that educational opportunities should be accessible to all" (Canada's Historic Places, n.d.). Alarmed by the threat that this "huge and generous neighbour" may pose on the autonomy of Canadian culture, the Royal Commission on National Development in the Arts, Letters and Sciences (1948–1951) recommended palliative measures by the state. The consolidation of the Royal Winnipeg Ballet, for instance, represents a product of such state endeavour to buttress the potential influence of business philanthropy (Litt, 1992).

The actuarial methods developed by the for-profit insurance sector since the late 19th century, as well as the technique of publicity and reporting developed by manufacturing and media enterprises, further influenced the methods of the charitable sector. They also trained many philanthropists in the art of governing large operations of fundraising and grantmaking. This cross-fertilization of business and charities' methods is at the centre of the rise, over the last century, of the movement of associated charities (England, 1869; Canada, 1881), community chests, united appeals, and other federated charities, such as Fédération des oeuvres de charité canadiennes-françaises and the United Way Greater Toronto, the sixth-largest charity in Canada as measured by donations. In turn, the habits of work developed by both sectors, as well as the resolution of the many points of tension that accompanied this rationalization of charitable work, constituted the pillars of the early administration of the Canadian welfare state (Lewis, Bulmer, & Piachaud, 1989; Tillotson, 2008; Bourbeau, 2015). Over the last century, larger transformations in the history of labour, including the professionalization of social work and new managerial techniques in the governance of philanthropic institutions, have increased the proportion of paid employees of charities working for a wage and have influenced the managerial techniques of charities. Today, the charitable sector employs two million Canadians, providing about one in 10 full-time jobs in the country (CanadaHelps, 2018).

Finally, the history of transnational associations of humanitarian aid is closely associated with the history of international trade. Business leaders, whose trade knew no borders, applied their "humanitarian sensibility" to distant populations, like the Swiss businessman Henry Dunant on a trading mission in Italy when he conceived of the International Committee of the Red Cross (1864) and the Quaker industrialists who accompanied the beginning of Oxfam (Glassford, 2017; Black, 1992).

Conclusion

The history of Canada's voluntary and nonprofit sector is, sadly, poorly documented, and thus not well analyzed or appreciated. Moreover, philanthropic institutions are often presented for what they are not (not for profit, not taxable, not public, and not governmental), when they have a rich and positive history of their own. Charities rarely have the time or the money to invest in the archiving of their past documents and in the writing of thorough accounts of their own histories. The compilation of old published annual reports might help, but scholars and practitioners know that the real history of encounters between sector leaders and volunteers with the publics they serve would not be told without deeper researching of old manuscript documents, pictures and hard drives, and interviewing with "veterans." In the best cases, dedicated librarians, volunteers, and retired employees are already ensuring that this work of record-keeping, preservation, and documentation is accomplished with an eye on teaching future generations.[4] Case files, project files, field reports, budgets, charity regulations, tax exemptions, lists of donors of one charity – all represent artifacts of the past evoked in this chapter: joint histories of community, state, church, and entrepreneurial actions and beliefs. Hopefully, this reasoned list of historical generalizations will encourage practitioners to read their own history a little better and to plan for their future with a richer reservoir of alternatives in mind.

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Notes

[1] For the origins of words, this chapter refers to the *Oxford English Dictionary*. It dates "non-profit" to the USA in the late 19th century and "voluntary" as it is used in this book to the mid-16th century Britain when it concerns gifts for charitable motives and to the mid-17th century when it concerns institutions "maintained or supported solely or largely by the freewill offerings or contributions of members or subscribers."

[2] For basic facts and explanations, I refer mainly to the relevant articles of *The Canadian Encyclopedia*/Historica Canada, https://www.thecanadianencyclopedia.ca/en. The articles on "Associations," "Charities," "Christianity," "Ecumenical Social Action," "Foundations," "Insurance," "Missions and Missionaries," "Social Doctrine of the Catholic Church," "Social Gospel," and "Social Work" have been especially useful, in addition to those on specific nonprofit organizations such as "Canadian Patriotic Fund," "Salvation Army," "Catholic Church," and philanthropists such as "Sir Herbert Brown Ames" and "Georges-Henri Lévesque."

[3] The statistics of this chapter come mainly from "The Biggest Charities in Canada": Charity Careers Canada, https://www.charitycareerscanada.ca/size-matters-biggest-nonprofits-canada/. The rank is established by the level of donations. See also "Canada's top 100 non-profit organizations (registered charities)": *The Globe and Mail*, March 5, 2018; and Claire Brownell, "Canada's top-rated charities 2019": https://www.theglobeandmail.com/report-on-business/top-100-non-profit-organizations-registered-charities/article34067186// and https://www.macleans.ca/society/life/canadas-top-rated-charities-2019/

[4] The Canadian Network on Humanitarian History, together with Carleton University's Archives and Special Collections, is engaged in several partnerships to this effect. See, for instance, the archives of the Match International Women's Fund, the personal archives of veterans of CIDA, and Oxfam Canada. https://asc.library.carleton.ca/ In addition, the US-based blog *HistPhil* is a good way to keep in touch with the field of the history of philanthropy: https://histphil.org/. As is the British-based Twitter account @Philliteracy.

Biography

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Dominique Marshall is professor of history at Carleton University. She teaches and researches the past of social policy, children's rights, humanitarian aid, refugees, disability, and technology. She coordinates the Canadian Network on Humanitarian History, which supports the rescue of archives of Canadian development and aid; co-directs the Carleton University Disability Research Group and the International Development Research Centre–funded program Gendered Design in STEAM; and is a co-investigator of the Social Sciences and Humanities Research Council–funded Local Engagement Refugee Research Network and a member of its Archives, Living Histories and Heritage Working Group. She has written about Canadian social policies and poor families, the Child Welfare Committee of the League of Nations, the Conference on the African Child of 1931, and the history of OXFAM in Canada.

Part II Navigating a Changing Environment

Governance and the Regulatory Environment

The Funding Environment

The People Environment: Leaders, Employees, and Volunteers

The Muttart Foundation

Governance and the Regulatory Environment

Chapter 4

It Should Have Been So Simple: The Regulation of Charities in Canada

Bob Wyatt
Muttart Foundation

> *92. In each Province the Legislature may exclusively make Laws in relation to Matters coming within the Classes of Subjects next hereinafter enumerated; that is to say,*
>
> *7. The Establishment, Maintenance, and Management of Hospitals, Asylums, Charities, and Eleemosynary Institutions in and for the Province, other than Marine Hospitals.*
>
> **Excerpt from the Constitution Act, 1982**

One might have thought that this provision of the Constitution Act – a direct replication of the 1867 British North America Act – would make things pretty simple for public policy and the regulation of charities in Canada. There it is: provinces have the *exclusive* right to make laws relating to the *establishment*, *maintenance*, and *management* of charities.

But if anything is clear about the federation that is Canada, it is this: nothing is simple.

How, then, did we get to the point where the federal government – through the Canada Revenue Agency (CRA) – has become the *de facto* regulator of charities, with provinces playing a perfunctory (if that) role?

Spoiler alert: it boils down to the almost-meaningless distinction between "charities" and "registered charities."

In this chapter, we will examine how Canada got to this place, the complaints and complications that have arisen and continue to arise, and the other models that have been suggested, all to no avail. The conclusion is that if we were starting all over again, we might do things differently. But we are *not* starting all over again, and the chances of any fundamental change in who regulates charities are minimal, possibly non-existent.

That is not to say that there can't, or won't, be changes in how charities are regulated, just that those changes are going to have to be made by the CRA – voluntarily or otherwise. Indeed, an argument will be made that some significant changes need to be made to avoid Canada becoming the laughing-stock of the common-law world as it relates to how charities can operate.

In the Beginning

Our story goes back more than 100 years but incorporates things that predate that by three centuries.

Canada's first income tax act – a temporary measure – was introduced in 1917 and exempted "charitable organizations" from the payment of tax on income. In 1930, government went further and allowed Canadians to deduct from their income any donations they made to charities, thus reducing their taxable income. But the act didn't define (nor does it to this day) what charities were, and, for that matter, there was no way for the government to know what charities existed in the country. There was no system of registration in place – and wouldn't be for another half-century.

The first issue, defining "charity," was resolved simply, if not helpfully: recourse would be had to the common law, dating back to the Statute of Elizabeth in 1601 (see Chapter 5 by Chan & Vander Vies). As interpreted by the English courts, and adopted by the Canadian courts, organizations were charitable if they existed for the relief of poverty, the advancement of education, the advancement of religion, or other purposes beneficial to the public in a way analogous to purposes the courts had ruled were charitable.

The second issue, knowing what charities existed, was less easy to resolve, although it's not clear whether it was because of difficulty or the lack of political will or the fact that there was no political or fiscal benefit from doing anything about it. In 1966, the federal government announced its intention to start a registration system for charities so that, thereafter, only donations to charities that were registered would be tax-deductible.[1]

In the debate that followed, Edgar Benson (1966), then the Minister of National Revenue, justified the change on the basis of

> the abuses which have developed in the matter of exaggerated receipts for which charitable donation deductions were claimed …

He went on to say

> that organizations which once had been given formal approval could subsequently change the nature of their activities so that they no longer qualify. There is also the question of those organizations whose names could lead to the ready acceptance of their receipts, when in fact those bodies might not qualify as proper charitable organizations. The officials of my department have done excellent work to cope with the many problems engendered by the situation. They have, however, been handicapped in their efforts by the lack of provisions for regulatory control in the income tax law.

The minister went on to describe the elements of the new system. Organizations would fill out a form to obtain registration. They would have to issue receipts in a form that the government would prescribe. And there would be "judicious examination" of a certain number of charities each year to ensure they were playing by the new rules.

Benson reassured the House of Commons:

> … it is not the intention of the government or of my department to disallow any legitimate charitable donations to organizations who are approved as charities and who carry out charitable purposes in this country. Rather this is a move toward a system of control whereby people may not abuse the right of being a charitable organization to the detriment of all other taxpayers in Canada, and thus force those taxpayers to pay more tax to make up for the advantage taken of this system by people who should not do so.

The minister gave scant credit to a question from an Opposition member who questioned whether there should be a definition of "charitable organization" included in the Income Tax Act, saying his officials saw no real issue, other than the occasional discussion about how far "education" went in allowing certain things to be charitable.

Not all of the discussion supported the registration system, as evidenced by this interjection by Charles-Arthur Gauthier, a member of the Ralliement Créditiste:

> Let us stop fooling around with charitable donations and forcing every parish priest to file reports and play detective in the field of charity. That is just a farce. I do not know whether it is inspired by anti-Christians or by people who would fain have Christianity lose its sway over Canada, but today, the legislation is being changed: our rectories are to be collection offices; every parish priest will have to be registered to be able to report and deduct charitable donations for the people who will go and get their receipts at the rectory.
>
> Mr. Chairman, the man who conceived such an idea was probably an outstanding man, but he was surely not a Christian. Had he been a sincere Christian, he would not have done such a thing. I feel it is an indirect and disguised way of making light of religion, of Christianity in general. When I think about charity, religion comes to my mind. I noted that under the amendment proposed earlier, deductions were being allowed for charitable donations to the UN, to Japan, to Russia; however, I was surprised at not finding any provision for the deduction of charitable donations to the Communist party. If deductions of 10 or 15 per cent of the income had simply been allowed for charitable donations, all those endless inquiries and investigations in every rectory and within all Christian organizations would have been prevented.

What wasn't discussed, during the debate or subsequently, was where the regulation of charities was placed – in the Department of National Revenue, subsequently to become the Canada Revenue Agency. It is difficult to know whether this was an act of commission or omission. It might have seemed only natural for responsibility for charitable registration to be placed there; the department was responsible for other designations for various types of taxpayers. It was also the department that was responsible for finding and dealing with those people and organizations that were not paying tax when they should have been. To the extent that Benson suggested the need to protect against fraud, National Revenue was the department that did that on an ongoing basis.

The placement of the issue within National Revenue was also consistent with what was happening in most other common-law jurisdictions. In the United States, the Internal Revenue Service had been responsible for registration of exempt organizations, including charities, for decades, although more direct supervision of charities was the responsibility of each state's attorney general. In the mid-1960s, only England had an independent body – the Charity Commission of England and Wales – that exercised jurisdiction over charities.

On the other hand, the move required a certain amount of legislative *legerdemain*. First, it required that charities be considered taxpayers, and then immediately give them an exemption from the payment of any taxes on income. While other types of taxpayers were entitled to certain deductions based on legislated provisions, charities were entirely exempt from the payment of taxes on income. Second, and more critically, the federal government could not, constitutionally, enact legislation that related to the establishment, maintenance, or management of charities – issues that were clearly within the exclusive domain of the provinces. Even though most provinces, with the exception of Ontario, paid little or no attention to charities except in the case of major scandals, the federal government had to tread carefully. It thus established the position that lasts to this day: the federal government does not regulate *charities*, but rather it regulates the *exemption from taxation* of certain organizations and is, thus, entitled to determine the eligibility for the exemption and the requirements for maintenance of that exemption.

Exemption from taxes on income is one benefit of charities, but in terms of forgone revenue from taxation, probably a less important factor than the other major privilege that goes with status as a registered charity: the ability to issue receipts that allow donors to claim tax deductions or tax credits.[2] In its 2020 report on the tax expenditures, Finance Canada does not estimate the amount of taxes that would be paid if registered charities were required to pay income tax, but it projects that the cost of tax credits and donations claimed by donors will be almost $4 billion (Finance Canada, 2020: 32–33).

While arguably logical, the designation of National Revenue (hereinafter "CRA") as the responsible body ignored two issues, both of which were – and remain – critical.

First, no one talked – at least in 1966 – about whether there was an inherent conflict created by making a department responsible for collecting taxes also responsible for dealing with groups that are totally exempt from taxes. It is natural that CRA's performance will be measured, at least in part, by its success in finding taxpayers – individual and otherwise – who should be paying taxes but aren't and rectify that situation with the full power of the federal government. While not discussed during the parliamentary debates, it did not take long, as we will see, before the issue was raised directly.

The second issue is more critical to the development of the charitable sector. CRA is a department that administers the Income Tax Act. Unlike other departments of government, it does not have responsibility for the legislation that governs it; that power belongs to Finance Canada. While CRA can (and does) identify issues related to tax matters, including those related to charities, and while it can make suggestions for reform, it is powerless to move those suggestions forward without the concurrence of Finance. Former employees of the Charities Directorate within CRA are able to give several examples of suggestions that were either ignored or significantly delayed because they were not a priority within Finance.

For good or bad, the 1966 budget proposal was adopted, CRA was given responsibility for registration of charities and ensuring their compliance with the Income Tax Act rules (at least as interpreted by CRA), and, before long, alternative arrangements were being pushed.

For now, the Charities Directorate is responsible for considering every application for charitable registration, reviewing the annual return every charity must file, ensuring compliance with the law through audits and education, and providing “guidance products” (formerly called policy statements) that give its interpretation of what charities must and may do to stay within the law.

The Complaints and the Alternatives

Like most government departments and agencies, the Charities Directorate has had complaints over the years about delays and inconsistent responses. While the publication of its “guidance products” online has been helpful, one still hears concerns about the length of time it takes to process an application for registration of a charity or difficulties in obtaining an interpretation of one or the other of the guidance products in a specific fact situation.

The more substantive complaints tend to fall in one of two categories. There are those who believe that it is inherently wrong for CRA to be the regulator of charities because of a conflict of interest. And there are those who have complaints about a particular action or series of actions that CRA has undertaken. The second type of complaint often morphs into the first, but both have the same goal: moving the regulation of charities to some body that is independent of government.

Drache and Hunter (2000) argue that there was no alternative but to establish an independent commission:

> We also take the position that organizational changes are extremely difficult, if not impossible. We do not believe that it is prudent to try to counteract the problems inherent in having a department dedicated to maximizing tax revenues make social policy decisions, particularly where a decision to recognize an organization as charitable de facto implies a loss of tax revenue.

They considered three options that had been described by the initial regulatory table of the Voluntary Sector Initiative[3] and found all of them lacking. Instead, they proposed a Charity Tribunal, which would, initially, serve as the body that decided on the registration of charities and the revocation of such registration. They looked to the Charity Commission for England and Wales for practices but suggested that simply replicating the model was not a viable option for a variety of reasons, including matters of constitutional law. Their fundamental premise, though, was that the conflict between the role of tax collector and decision-maker about charities could never be resolved.

The other source of calls to remove charity regulation from CRA came about as a result of actions, rather than principles. Most prominent amongst this category was the political-activities audit project that was undertaken starting in 2012.

After a federal Cabinet minister suggested that some Canadian charities were acting contrary to the public interest by opposing expansion of some energy facilities, and were accepting money from outside Canada to do so, there followed a budget that gave the Charities Directorate additional resources to audit a selection of charities thought to be breaking the rules then in effect that limited their ability to engage in what were considered "political activities."

The move ended a period of relative calm over the issue of advocacy by charities. The issue had arisen before, in the mid-1980s and again near the end of the 20th century. But a new policy had been adopted by CRA – with significant input from the sector – in 2003, and there had been little concern about the topic until 2012.

Sixty charities were targeted for audit. Some charities, newspapers, commentators, and members of the public argued this was political interference in what was supposed to be a strictly regulatory function by CRA and did not accept denials from the then director-general of the Charities Directorate and her superiors that no politicians were involved in selecting the charities to be audited or in the conclusions that were reached. In the final result, of the 49 charities audited for political activities by 2017, nine had their registrations revoked (or intentions to revoke were issued), two had registrations annulled, and one voluntarily revoked its registration.[4] However, the Charities Directorate said none were revoked primarily because of political activities.

A change in government ended the political-activities audit project and brought assurances that the new government saw the value of involving charities in the development and review of public policy.

Following a decision by the Ontario Superior Court of Justice that the rules governing political activities breached the provisions of the Charter of Rights and Freedoms, legislative changes were hastily introduced to do away with the concept of political activities and instead provide positive reinforcement for charity involvement in "public policy dialogue and development activities."

The 2012 to 2015 debacle again led to calls for the creation of an independent regulator of charities. The calls dissipated, however, in part because absolutely nothing had changed since the last reviews a decade and a half earlier.

As noted by Drache and Hunter, three models were considered by the Working Group on Regulation that met during the first phase of the Voluntary Sector Initiative. Those models were subsequently considered by the Joint Regulatory Table (JRT) that was formed in the second phase of the Voluntary Sector Initiative. The mandate of the JRT required it to examine and report upon the models but specifically restricted it from making a recommendation. The JRT considered the three models and added a fourth, which shared many of the attributes suggested by Drache and Hunter. The JRT's final report (2003) described the models and assessed them against the factors that, in the JRT's opinion, were critical, no matter where the regulatory responsibility rested. Of particular note was the JRT's statement that it found no evidence to suggest that the conflict between the Charities Directorate's role and the CRA's mandate existed in fact.

The JRT's report included an appendix setting out the situation in other common-law jurisdictions. While it spoke positively about the Charity Commission for England and Wales, the JRT, like the Drache and Hunter proposal, noted that it could not simply be replicated in Canada. Among other problems, the Charity Commission exists in a unitary state and administers an act that exclusively relates to the establishment, maintenance, and management of charities – a role that is within the constitutional authority of Canada's provinces. Moreover, the Charity Commission's decision-making authority intrudes on areas that are the exclusive jurisdiction of Canadian courts.

Aptowitzer (2009) sought to overcome the constitutional hurdles by proposing a federal-provincial council that would exercise the powers of both the federal government under the Income Tax Act and the provincial governments under their constitutional authority.

The idea attracted little attention, likely for two reasons. First, shortly after the publication of his paper, the sector found itself in the middle of another crisis: a private member's bill introduced in the House of Commons that would have imposed a cap on the maximum salary that any charity could pay an employee. The second likely reason is more quintessentially Canadian: no one could conceive of a situation in which the federal and provincial governments could come to a unanimous agreement on the type of power-sharing arrangement the concept proposed.

It is easy to see why the Charity Commission for England and Wales was such an attractive alternative for many people. In its heyday in the late 1980s and 1990s, and even into the early part of the 21st century, the Charity Commission was seen as effectively balancing its regulatory function with its responsibilities to support charities and enhance public trust in them. Its guidance to charities was well presented and explained complex principles in ways that were easily understood. But as government restraint measures started being imposed, the Charity Commission became a shadow of its former self, shedding a significant part of its workforce, cutting back its services, and becoming increasingly focused on its role as a regulator. More recently, the commission has lost credibility with some in the sector as the result of the appointment of a commission chair, despite a negative recommendation from a parliamentary committee on the basis of her lack of experience with charities and her perceived partisanship.

The United States has been the most consistent of the common-law countries. The Internal Revenue Service – the equivalent of CRA – is responsible for the registration of charities, although the supervision of charities is clearly done by the individual states. Such supervision is active, as opposed to the passive role taken by most of Canada's provinces.

At the time of the JRT report, Australia and New Zealand did not have charity commissions, but that was to change. Both countries established charity commissions, although New Zealand's was short-lived, "disestablished" after a change in governments and only by a one-vote majority in the upper house of that country's parliament. A less independent regulatory function was then rehomed in a line department. Australia's commission had an illustrious start and was soon widely accepted by that country's charities, only to find its support waning after the appointment of a new commissioner whose past statements clearly indicated he was not a fan of most charities.

Subsequently, charity commissions have been established in Scotland, Ireland, and Northern Ireland.

All these historical developments lead inevitably to a question: is institutional reform of the charity regulator in Canada desirable, or even possible? At the time of writing – nearing a year into the COVID-19 pandemic – it is not on the top of anyone's list of issues. Indeed, since the end of the political-activities audit project and the legislative changes that followed, there has been little commentary on the topic. That is probably for the best, because it would seem unlikely that it would be a priority – or even a possibility – for the federal government. Even without the distraction of a pandemic that has shut down much of the economy and led to unplanned expenditures in the tens of billions of dollars, one would be hard-pressed to articulate a political imperative for such a significant change to the machinery of government.

If, at the time the registration system was established in 1966, government had decided to establish an independent body to regulate charities – and could get its head around the constitutional issues involved – that would probably have been acceptable. Instead, it gave the responsibility of conferring (or not conferring) a certain tax status on the same department that confers (or doesn't) other status on other people and organizations. To take away responsibility over 86,000 organizations that will generate no revenue of any kind for government and give it to a body over which it has little authority would not seem to be a move that would have appeal for any government. Given the recent history in England, Australia, and New Zealand, one would have to question whether the charitable sector has – or should have – any appetite for such an independent body.

Is there a conflict between CRA's overall mandate and the responsibilities of the Charities Directorate that is housed within CRA? The JRT said it found no evidence of it. While there are still disagreements about registration decisions, there has not been evidence produced to suggest that those people making registration decisions are considering the loss to the treasury that might flow from approving an application for charitable registration.

Thus, if we were starting all over again to address the regulation of charities, Canada might do something different. But now, more than a half-century into the process, it is difficult to imagine the situation that would lead government to take on the cost and administrative burden of creating a new agency. It is equally unlikely that the charitable sector could make a case that such a move would have significant tangible benefits for Canadians. Thus, it perhaps makes more sense to consider the form of regulation that exists, rather than who is exercising the authority.

The Role of the Provinces

That provinces are responsible for exercising jurisdiction over charities is beyond doubt: it's right there in the Constitution Act, and in the same terms as the British North America Act that governed the country since Confederation.

Drache and Hunter suggested that the provincial powers were "sparsely exercised." That might well give the provinces too much credit. Ontario does have a formal system to oversee charities through the Office of the Public Guardian and Trustee (OPGT). Organizations that wish to incorporate a charity in that province must either use pre-approved objects to describe their purposes or make their application for incorporation through the OPGT. The office also accepts complaints suggesting that a charity is not using its property for its charitable purposes or that the officers or managers of a charity are not using that property appropriately. The OPGT, a branch of the Ministry of the Attorney General, can – and does – bring applications before the court to bring charities into compliance with laws and to protect charitable property.

Drache and Hunter (and others) refer to Alberta exercising jurisdiction through its Charitable Fund-Raising Act. The degree to which that is an accurate assessment is open for debate. Certainly, there is such an act, which sets out certain rules regarding fundraising by charities, but there is disagreement as to how seriously it is regarded or enforced. There are no readily available data on the number of organizations that have registered under the Charitable Fund-Raising Act or the number of businesses that have registered either as fundraisers or because they are promising to donate amounts to charity. In meetings, officials have said that only a small percentage of the nonprofit organizations in the province have registered under the act, but it is not clear whether that is a form of noncompliance or whether they fall under one of the exemptions contained in the act.

Whether they use it (or know it) or not, provincial attorneys general have jurisdiction over charities; indeed, they are often the only ones who can seek court orders to deal with issues affecting charities. Outside of Ontario (where the OPGT acts on behalf of the attorney general), there is little in the way of reported cases where a provincial attorney general has used this power.

One might well ask why provinces would not utilize a constitutional authority that is reserved only to them. Again, we have no detailed information. It may be that they are content to rely on the supervision exercised by CRA, or it may be that they see no “up” side. Establishing a mechanism to exercise their constitutional authority would cost money, and because it would be money used for enforcement, there would be little “good news.” At best, government might sometimes get credit for catching up with those who seek to defraud donors, but it is also likely to attract criticism for not catching more.

Provinces have asserted one form of authority, but it is one that causes confusion. Under federal law, there is a general prohibition on gambling, but with a number of exceptions. One of those exceptions allows the provinces to authorize lotteries and other forms of gaming for charitable or religious purposes. However, provinces have adopted varying definitions of what constitutes a charity for the purposes of gambling activities within its province. This can, as in the case of Alberta, result in some organizations, registered as charities by the federal government, falling outside a province’s definition. Similarly, there are organizations licensed to conduct gambling activities that would not qualify for registration as charities for the purposes of the Income Tax Act.

The Role of the Courts

An underlying premise of charity law is that it is supposed to evolve with the times. This can occur in one of two ways. First, the regulator can consider societal developments when it is reviewing an application for charitable status. It can draw analogies between something that is happening in the "here and now" to something that it, or the courts, has previously ruled charitable. The other way is through the courts themselves, using cases brought before them to advance the "common law" – the judge-made law that keeps our legal system relevant to changes in society.

In the area of developing the law of charities, Canada's courts have failed miserably – partially as a result of bad cases that have been brought before them and partially because of their willingness to defer to government. But the overwhelming reason for Canada lagging behind virtually every other common-law country is because we have, in the area of charity law, an appeal process that is (at its highest) illusory.

If an individual or corporate taxpayer disagrees with a decision made by CRA, it can ask for a review within CRA. If still not satisfied with the result, the individual or corporation can file an appeal with the Tax Court of Canada. Depending on the circumstances and the amounts involved, the issue could go through the informal procedure (where there are no fees to start an action) or the general procedure (where there is a fee). In either case, the individual or corporation calls its evidence, CRA presents its evidence, and then both sides make their arguments. A judge will then decide if CRA was right – whether its decision was correct in law.

By way of contrast, let's take the case of an organization that wants to register as a charity but has been turned down for some reason. In most cases, the organization has just been set up, and has had little revenue, in part because it cannot give tax credit receipts to donors without the charitable registration. Once it is finally refused registration, it can ask for a review within CRA. If the refusal is upheld, and the organization wants to keep fighting, it faces what often seem to be (and are) insurmountable barriers. The organization cannot go to the Tax Court, but rather has to make its case to the Federal Court of Appeal (FCA). In the hierarchy of Canadian courts, the FCA is on the level just below the Supreme Court of Canada. While an organization can ask for permission to be represented by a member, that is not easily obtained. Lawyers have estimated that the cost of pursuing an appeal before the FCA is likely to be in the range of $100,000 to $250,000.

Even if, somehow, the fledgling organization is able to find the resources to launch an appeal, the process seems stacked against it. They are not allowed to call evidence. The only material before the court is the documentary material exchanged between the organization and the Charities Directorate. This is problematic enough in a registration case, but where the appeal is from a decision to revoke the registration of a charity, the organization has no right to cross-examine any of the auditors or officials responsible for the decision. The only explanations for the Charities Directorate's actions, and only the objections made in writing by the organization, will be before the three judges who hear the case.

Unlike the situation in the Tax Court, the FCA will not decide whether CRA's decision was correct. Instead, to uphold the decision, the FCA must find only that CRA's decision was "reasonable." This may explain why every charity-law case in more than 20 years has been decided in favour of CRA (Special Senate Committee, 2019).

For at least that long, virtually everyone who has written on the topic has advocated that appeals from Charities Directorate decisions should go to Tax Court for a full hearing, including evidence of witnesses. Those calls have been studiously ignored.[5] The most frequent rationale offered by the Department of Finance (which would have to put forward the legislative amendments to make the change) is that the Tax Court is established to deal with interpretation of statutes and is not expert at common-law issues like the law of charities. That rationale does not withstand scrutiny. The Tax Court is frequently called upon to apply common-law principles to the cases before it. Moreover, all the judges of the Tax Court were formerly practising lawyers, who had to deal with common-law issues on an almost daily basis.

Whatever the true concern of Finance officials, the result has been that few cases have made it to even the first level of judicial appeal. The Special Senate Committee's (2019: 70) report on the charitable sector quoted law professor Kathryn Chan, who testified that the result has been the "near eradication in Canada of the common law method of developing the legal definition of charity by judicial analogy."

Even fewer cases have made their way to the Supreme Court of Canada. When that court heard the case of the Vancouver Society of Immigrant and Visible Minority Women[6] in 1998, it was the first time in more than three decades that a charity law case had been before the bench. Since that time, only one other charity law case – that of the Amateur Youth Soccer Association[7] (AYSA) – has been argued before the country's highest court.[8]

In both cases, the Supreme Court passed on the chance to expand the concept of what is charitable to meet the needs of modern-day Canada, saying that was the role of Parliament, not the courts. This is in stark contrast to the court's counterparts in Australia and New Zealand, where the courts have struck down restrictions on advocacy by charities and, in the case of Australia, has endorsed the "destination of funds" test, ruling that charities may engage in any form of business activity, so long as profits from those businesses are used to fulfil the charitable purposes of the charity (see Chapter 6 by Manwaring & Kairys).

This is not to say that the two cases heard by the Supreme Court of Canada were entirely bereft of good news. In the Vancouver Society case, the court did expand the boundaries of what was considered to be educational for the purposes of charity law. In the AYSA case, while the court upheld the FCA's dismissal of the appeal, it did so on different grounds. The distinction removed a significant potential problem that could have led to questions about whether arts organizations and those providing housing to seniors would remain as charities.

But the court made clear in both cases that the voluntary sector should look to the judicial system only for "incremental" change. The court in AYSA felt that giving charitable status to amateur sports would be a "wholesale" change and that was "a task better suited to Parliament than the courts."

The Role of Parliament

Canadian charities and their lawyers would likely have widely divergent views on what regulatory issue they would most like to see addressed by Parliament. Often, preferences will depend on the nature of an organization's work, and particular obstacles it faces. Trying to decide what would benefit the sector as a whole is a more difficult exercise.

The list that follows provides a brief review of three of the more significant sector-wide issues that exist, other than issues that have already been discussed, most notably the appeal process. Some of the following issues could be resolved, at least in part, through administrative action; others would clearly require a legislative change. The list is by no means exhaustive, and the order is arbitrary.

Statutory Definition of "Charity"

As already discussed, there has not been much development in the law of charities in Canada over the last two decades – even longer according to some. CRA has broken little new ground through the registration system, and the record of court decisions on the issue is pretty one-sided.

The argument in favour of a statutory definition is that it will provide certainty and reduce the reliance on the discretion of both CRA and the courts. Things that "everyone agrees" should be charitable would no longer have to go through a process that might or might not lead to them being accepted by CRA and the courts. It would also, proponents say, allow for regular updating as society changes.

The argument against a statutory definition is that such a move would introduce politics into charity law and could make our understanding of what is charitable subject to differing political views over the years. The fact that the definition could be changed by legislative amendment is, opponents argue, dangerous because it could introduce political ideology into the mix.

England and Australia have used a "charity-plus" model in their legislation governing charities. They have incorporated the traditional common-law definition and then added other things that are also then made into charities. Canada has done this to some extent, by creating a category of organizations known as qualified donees. This includes all registered charities but goes on to give certain other types of organizations privileges akin to those of charities, mainly the ability to issue receipts that allow donors to claim a tax credit or deduction. This list includes registered Canadian amateur athletic associations, national arts service organizations, municipalities, the United Nations and its agencies, and both federal and provincial governments.[9] But the list does not, unlike provisions in England and Australia, include types of organizations that have been turned down for charitable status.

Drache (1999) proposed a much fuller "charity-plus" model and included annotated draft legislation to help explain his choices for the list. Some types of organizations suggested by Drache have, since his paper, been determined to be charitable, but there are still many types of organizations on his list that cannot obtain charitable registration. The fact that the proposal has not been acted upon is probably the best indication of a lack of interest by government in expanding the number of organizations that can issue receipts resulting in tax credits or deductions.

If neither Parliament nor the courts are willing to ensure the continued evolution of the common law as it relates to charities, Canada will be in a very sorry state indeed.

Purposes Versus Activities

Perhaps one of the most confounding aspects of the Canadian law related to charities is the confusion between "charitable purposes" and "charitable activities." Even the Supreme Court of Canada has lamented over this.[10]

It is well settled that to be a charity, an organization must have purposes that are exclusively charitable. Once those purposes have been established as charitable, the organization is supposed to engage in activities that further the charitable purpose. An ongoing complaint is that CRA focuses too much attention on the activities themselves – even from newly formed organizations that can only guess what their activities might be.

In the Vancouver Society case, Justice Iacobucci outlined the dilemma:

> The difficulty is that the character of an activity is at best ambiguous; for example, writing a letter to solicit donations for a dance school might well be considered charitable, but the very same activity might lose its charitable character if the donations were to go to a group disseminating hate literature. In other words, it is really the purpose in furtherance of which an activity is carried out, and not the character of the activity itself, that determines whether or not it is of a charitable nature.[11]

CRA has argued that its focus on activities is necessary to ensure that a charity does not have a "collateral non-charitable purpose." If, for example, an inordinate amount of the charity's resources (including time) are focused on something, it could be that its purposes were (deliberately or innocently) misstated. Those on the other side of the argument believe that CRA is applying the "exclusively" charitable test to activities, rather than purposes, and say that is not what the law demands.

Justice Iacobucci, citing a 1960s case that adopted a 1949 English decision, came to this conclusion:[12]

> The chief proposition to be drawn from this holding is that even the pursuit of a purpose which would be non-charitable in itself may not disqualify an organization from being considered charitable if it is pursued only as a means of fulfilment of another, charitable, purpose and not as an end in itself. That is, where the purpose is better construed as an activity in direct furtherance of a charitable purpose, the organization will not fail to qualify as charitable because it described the activity as a purpose.

Some have suggested that the best way to end the confusion is to eliminate references to "activities" in the Income Tax Act provisions related to charities. Again, the call seems to have fallen on deaf ears.

Business Activities

Charities must, as a matter of survival, constantly be searching for sources of revenue. Statistics Canada has reported over a number of years a decrease in the percentage of tax filers who claim a tax credit for charitable donations (see Lasby & Barr, 2018), although CanadaHelps (2020), the online donations portal, reported record donations through its system for 2020. Government grants and contracts can, at the best of times, be unpredictable, and it is likely that unpredictability will only increase as governments begin to struggle with deficits incurred as a result of the COVID-19 pandemic.

Some charities have indicated a desire to engage in businesslike activities to help generate revenue. Their ideas run the gamut from operating an actual business to the use of commercial-like financing instruments.

These organizations run into a number of regulatory and operational hurdles. From a regulatory perspective, the Income Tax Act says that a charity can operate a business under only two circumstances: it must be a business that is related to the charity's purposes, or it must be operated entirely by volunteers.[13] From an operational perspective, there are issues related to obtaining start-up capital, meeting ongoing funding needs, and balancing the time and efforts of senior staff and volunteers between the charity and the business.

From a policy perspective, there are additional difficulties. There have been some business groups, particularly in Canada and the US, that have been vocal in opposing the entry of charities into the world of business, suggesting that charities would enjoy an unfair advantage because of their tax-exempt status. In the US, some were successful in challenging the charitable status of YMCAs because they operate fitness facilities – an issue not existent in Canada because CRA has held similar facilities to be charitable.

Among the other concerns are ones that relate to the fiduciary responsibility of directors of charities, as well as the potential for reputational risk. If charities operate businesses within the corporate structure of the charity, then it is the charity itself that may end up assuming all liability for anything that goes wrong with the business. This could mean that donor dollars (which can be considered "tax-assisted" because of the credit or deduction that the donor receives) could end up being used to deal with a problem of the business. There is also the reality that businesses do not always succeed; a failure of the business could also eat up tax-assisted dollars the charity has received.

There are options to operating a business within the charity's corporate structure. The charity could create a wholly owned subsidiary as a tax-paying entity. It could then make a donation of up to 75% of its net income to the charity and pay any leftover money (after being sure it retained enough to continue operations) by way of dividend. This would minimize the tax paid by the company while keeping all of the liability within the business, and not attaching it to the charity. It could also counter arguments by business organizations; the charity-owned business would live by the same rules as any other business but would still pay less tax because it would be donating most of its proceeds to the charity that owned it.

The other option being proposed is adoption of what is called the "destination of funds" test. In this model, a charity would be allowed to undertake any business activities it wishes, so long as the proceeds of those activities were used to further the charity's charitable purposes (see

Chapter 6 by Manwaring & Kairys). This is the model approved by Australia's High Court in 2008.[14]

The Special Senate Committee on the Charitable Sector (2019: 92) recommended a pilot project to test the destination-of-funds model. The proposal followed evidence by some witnesses proposing a "regulatory sandbox" so that a variety of suggestions could be tested before they were implemented through legislative change. The biggest problem with the committee's recommendation – well-intentioned though it might be – is that there appears to be no way for a "regulatory sandbox" to be used to exempt some group of charities from provisions of the Income Tax Act, without amending the act itself. Some regulatory bodies – including the Canadian Security Administrators and Transport Canada – have, in recent years, tried some things, but it was done through providing alternative regulations, and regulations do not require parliamentary approval. An exemption from the Income Tax Act is something different. Contrary to what some people apparently believe, the temporary allowance of the capital gains exemption of appreciated capital property (later made permanent) and the introduction of a temporary additional tax credit for first-time donors (allowed to expire) were not the equivalent of a regulatory sandbox. In both cases, government introduced an amendment to the Income Tax Act that had a time limit included in it. It is difficult to imagine how government could allow some, but not all, charities to test a destination-of-funds concept without being accused of discrimination against those charities that were not included.

Conclusion

There are a number of serious shortcomings in the laws that govern charities in Canada, yet neither the courts nor governments of any political stripe seem to be particularly motivated to make changes. While the issue of political activities by charities has been resolved, at least for now, there are a number of other issues that remain.

The suggestion for a change in regulators is, most likely, a non-starter. There would appear – at least from the government perspective – little reason to create a new regulator and several reasons not to do so. Thus, changes in how charities are regulated must be derived either from changes in how CRA applies the law of charities or through governmental or judicial decisions that clarify or change the law of charities.

Canada lags far behind other common-law jurisdictions in a number of aspects, especially in what is regarded as charitable. Absent a real (as opposed to illusory) appeal mechanism that allows for the boundaries to be tested, that situation is unlikely to change, absent parliamentary involvement, and the sector has been anything but united in formulating what changes it would like in that regard.

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Notes

[1] Taxpayers were still allowed a standard $100 deduction (for combined charitable donations and medical expenses) that could be claimed without submitting any receipts. By way of reference, $100 in 1966 dollars equates to slightly more than $675 in 2020 dollars.

[2] At the time of the initial legislation, taxpayers were entitled to deductions for charitable donations. Subsequently, the benefit for individual donors was changed to a refundable tax credit. Corporations continue to receive deductions for donations to registered charities.

[3] The Voluntary Sector Initiative was initiated by the government of Jean Chrétien to establish a new relationship between the federal government and the voluntary sector. In the first phase, three "working groups" were established, with equal numbers of public servants and people from the voluntary sector, and given the task of preparing reports outlining the scope of certain issues. In the second phase, there were six working groups plus a coordinating group, again each composed of equal numbers of public servants and people from the voluntary sector. Their task was to get further into the issues that had been identified and make recommendations to government. The joint tables had between two and four years to complete their reports.

[4] Because of the confidentiality provisions within the Income Tax Act, it is impossible to determine what happened to these cases. Some may still be in the appeal mechanism; CRA may have abandoned its efforts to revoke the registration in some cases. Information about audits of charities is available only when a revocation actually occurs, or an intermediate sanction is imposed.

[5] Somewhat ironically, when the Income Tax Act was amended to provide for intermediate sanctions – penalties short of revocation for charities that have blatantly contravened the rules related to charities – the amendments provided that appeals from those sanctions would go to the Tax Court of Canada.

[6] *Vancouver Society of Immigrant and Visible Minority Women v M.N.R.* (1999) 1 SCR 10, 1999 CanLII 704 (SCC).

[7] *A.Y.S.A. Amateur Youth Soccer Association v. Canada (Revenue Agency).* (2007) SCC 42, 3 SCR 217.

[8] One other case implicated a charity but focused primarily on the right of the CRA to demand information about donations to the charity, rather than the question of whether the organization was a charity: see *Redeemer Foundation v Canada (National Revenue)*. (2008) 2 S.C.R. 643, 2008 SCC 46.

[9] While these other types of qualified donees have receipting privileges similar to those of charities, they do not all have the same reporting requirements.

[10] See *Vancouver Society*, infra, at paragraph 52 per Gonthier (dissenting, but not on this point) and paragraphs 152–153 per Iacobucci for the majority.

[11] *Vancouver Society*, op cit., at paragraph 152.

[12] *Vancouver Society*, op cit., at paragraph 158.

[13] Charities that are categorized as private foundations cannot engage in any business activities.

[14] *Commissioner of Taxation of the Commonwealth of Australia v Word Investments Limited.* (2008) HCA 55.

Biography

Bob Wyatt, The Muttart Foundation

Bob Wyatt is executive director of the Muttart Foundation, a private foundation based in Edmonton. He served as co-chair of the Joint Regulatory Table during the Voluntary Sector Initiative and has remained active in exploring ways to improve the regulatory regime for Canadian charities. He is a regular guest lecturer in the Master of Philanthropy and Nonprofit Leadership (MPNL) program at Carleton University, which awarded him an honorary Doctor of Laws degree for his service to the charitable sector. His work on behalf of the sector also led to his receiving the Alberta Centennial Medal and the Queen Elizabeth Diamond Jubilee Medal.

Governance and the Regulatory Environment

Chapter 5

The Evolution of the Legal Meaning of Charity in Canada: Trends and Challenges

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Many Canadians have their first encounter with charity law and policy when they attempt to determine whether the nonprofit organization that they are involved in is eligible for registered charity status. While all nonprofit organizations are exempt from paying Part I income tax under the federal Income Tax Act (1985), registered charities are among the shorter list of designated "qualified donees" that are entitled to issue valuable tax receipts to corporate and individual donors (ss. 110.1 and 118.1).[1] This latter benefit, which is "designed to encourage the funding of activities which are generally regarded as being of special benefit to society," is often a "major determinant" of an organization's success (*Vancouver Society of Immigrant and Visible Minority Women v MNR* [*Vancouver Society*], 1999: para. 128).

The legal definition of charity plays a crucial function in determining what subset of Canadian nonprofit organizations will be endowed with the additional benefits and burdens of registered charity status. The Income Tax Act stipulates that to be registered as a charity, an organization must be constituted and operated "exclusively for charitable purposes." An organization that is registered as a "charitable organization" must also devote all its resources to charitable activities that the organization carries out itself.[2] The Income Tax Act does not define the term "charitable," however. In this situation, the longstanding practice of both the Canada Revenue Agency (CRA) and the federal courts has been to draw guidance from the common law (*Vancouver Society*: para. 28).[3]

The purpose of this chapter is to describe and analyze the manner in which the legal concept of charity has evolved in Canada. We structure our discussion around four questions:

1. How have the courts contributed to the evolution of the legal meaning of charity in Canada?
2. Why have so few litigants succeeded in convincing the courts to advance the legal meaning of charity?
3. How has the CRA Charities Directorate contributed to the evolution of the legal meaning of charity in Canada?
4. How does the current Canadian approach to the legal meaning of charity differ from that of other common law jurisdictions?

Given the summary nature of this chapter, we do not attempt to describe all of the charity law decisions rendered by Canada's federal courts since the Minister of National Revenue began registering charities in 1966. Rather, we aim to highlight certain important developments in the evolution of the legal definition of charity, to situate Canada's approach to defining charitable purposes vis-à-vis that of other Anglo-Commonwealth jurisdictions, and to flag certain obstacles to the judicial development of the concept by the Federal Court of Appeal.

How Have the Courts Contributed to the Evolution of the Legal Meaning of Charity in Canada?

The Parliament of Canada has never exercised its power to determine the meaning of charity under the registered charity regime. Subsections 248(1) and 149.1(1) of the Income Tax Act establish rough outer boundaries for the sector by identifying and partially defining three categories of charities that the Minister of National Revenue may register.[4] Subsection 149.1(1) defines charitable organizations and public and private foundations by reference to the "charitable purposes" (*fin de bienfaisance*) for which they are constituted and the "charitable activities" (*activités de bienfaisance*) they carry out. However, the Income Tax Act does not specify the meaning of a "charitable purpose," save to state that it includes the disbursement of funds to defined "qualified donees."[5] Similarly, the Income Tax Act does not define "charitable activities," although it does clarify that certain public policy and business activities fall within the term. In the absence of a precise statutory definition of charity, the Revenue Minister has always determined the meaning of the statutory terms "charitable purpose" and "charitable activity" by reference to the common law.[6]

The common law concept of a charitable purpose took its early shape in the English Court of Chancery, which exercised jurisdiction over property held in trust from at least the 15th century (Jones, 1969: 2–9). In determining what objects were charitable, the court took as its guide the list of "good, godly and charitable" purposes set out in the preamble to an Elizabethan statute. In modern English, these purposes are:

> The relief of aged, impotent, and poor people; the maintenance of sick and maimed soldiers and mariners, schools of learning, free schools, and scholars in universities; the repair of bridges, ports, havens, causeways, churches, seabanks, and highways; the education and preferment of orphans; the relief, stock, or maintenance of houses of correction; marriage of poor maids; supportation, aid, and help of young tradesmen, handicraftsmen, and persons decayed; the relief or redemption of prisoners or captives; and the aid or ease of any poor inhabitants concerning payment of fifteens, setting out of soldiers, and other taxes.

The limited purpose of the Statute of Elizabeth was to delimit the jurisdiction of certain commissioners tasked with addressing misuses of charity property, and the charitable uses set out in the preamble were not originally understood to constitute an exclusive or fixed list (Picarda, 2010: 10). By the start of the 19th century, however, the Court of Chancery had affixed the common law meaning of charity to the preamble and severed it from parallel notions of benevolence and liberality that had been embraced by the civil law (Chan, 2007: 512).

In the 1891 *Income Tax Special Commissioners v Pemsel* [*Pemsel*] decision, the House of Lords sought to clarify the common law meaning of charity by establishing four general categories, or "heads," of charitable purposes: the relief of poverty, the advancement of education, the advancement of religion, and "other purposes beneficial to the community, not falling under any of the preceding heads" (p. 28).

The fourth *Pemsel* head is a residual category, which today includes important purposes such as the provision of public works, the preservation of public order, the promotion of health, the preservation of the environment, and the care of children (Maurice & Parker, 1984: 90–134). People pursuing novel benevolent projects often seek charitable recognition for their projects under the fourth head, inviting the court to recognize new purposes as charitable on the basis that they are a reasonable extension of, or analogous to, existing charitable objects (*Scottish Burial Reform and Cremation Society Ltd v Glasgow Corporation* [*Scottish Burial Reform*], 1968). However, the scope of this residual category is limited by the requirement that a fourth-head purpose be either listed in the preamble to the Statute of Elizabeth or within the "spirit and intendment" of the purposes set out therein (*Scottish Burial Reform*). In order to be charitable, a purpose must also benefit the community or a significant section of the community within the meaning of the public benefit doctrine. Finally, to be charitable in Canada, a purpose must not be "political."

The Income Tax Act establishes the procedure through which the Revenue Minister's views on the legal meaning of charity can be challenged in court. Pursuant to subsection 168(4) of the act, a legal person, usually a nonprofit corporation, who objects to a decision of the minister to refuse to register that organization as a charity or to revoke an organization's registered charity status may file a written "notice of objection" with the minister within 90 days from the date of mailing of the decision. The minister is obliged to consider such objections "with all due dispatch," although in practice the task is delegated to CRA officials who work in the Tax and Charities Appeals Directorate (Income Tax Act, 1985: s. 165(3)). Pursuant to paragraph 172(3)(a.1) of the Income Tax Act, a person may appeal the minister's confirmation of a registration or revocation decision to the Federal Court of Appeal. In theory, this procedure provides an opportunity for a superior court to incrementally develop the concepts of "charitable purposes" and "charitable activities" by reference to the common law. As we will see, however, the Federal

Court of Appeal has very seldom adopted the common law practice of declaring objects to be charitable by reasonable extension or analogy to existing charitable objects.

Since 1980, the Federal Court of Appeal has heard and decided approximately 50 appeals of Charities Directorate decisions to not register or to revoke the registration of a charity. Two of these appeals, *Vancouver Society* and *AYSA v CRA* [*AYSA*], 2007, were ultimately decided by the Supreme Court of Canada. The decision in the *Vancouver Society* case states that in making decisions about charitable status, courts should adapt the common law as necessary and not "perpetuate rules whose social foundation has long since disappeared" (at para. 150).[7] However, it also instructs courts to leave changes with more complicated ramifications to the legislature.[8] The Federal Court of Appeal has taken the latter instruction particularly to heart. In certain charitable registration cases, the Federal Court of Appeal has *advanced* or *expanded* the concept of a charitable purpose, using the common law methodologies of identifying analogies to, or determining reasonable extensions of, existing charitable purposes to keep charity law moving in accordance with new social needs.[9] In most charitable registration cases, however, the court has refused to draw analogies with the existing case law or to advance the concept of a charitable purpose. The cumulative effect of these refusals has been to *stultify* or *narrow* the legal definition of charity in Canada.

There are a limited number of Federal Court of Appeal cases where the court can be said to have materially advanced or developed the legal concept of a charitable purpose. This eclectic group of cases includes *Native Communications Society of BC v MNR* [*Native Communications*], 1986, where the Federal Court of Appeal allowed an appeal against CRA's refusal to register a nonprofit corporation whose purposes included:

- organizing and developing radio and television productions;
- providing training as communication workers;
- publishing a nonprofit newsletter; and
- delivering information on subjects relevant to the "native people of British Columbia" (at para. 2).

While there was no case directly on point, the court held that

> it would be a mistake to dispose of this appeal on the basis of how this purpose or that may or may not have been seen by the Courts in the decided cases as being charitable or not. This is especially so of the English decisions relied upon, none of which are concerned with activities directed toward aboriginal people (at para. 18).

Relying in part on the special constitutional status of the Aboriginal Peoples of Canada, the court held that the broadcast of media for the education of Aboriginal people on Aboriginal issues should be added to the common law of charitable purposes (*Native Communications*: para. 11).

Everywoman's Health Centre Society (1988) v MNR [*Everywoman's Health*], 1992, and *Vancouver Regional FreeNet Association v MNR* [*FreeNet*], 1996, round out the small group of positive fourth-head decisions under the registered charity regime. In *Everywoman's Health,* the Federal Court of Appeal held that the provision of abortion services was analogous to the provision of other medical services, and was thus charitable under the fourth head. In *FreeNet,* a decision rendered in the early years of the internet, a majority of the Federal Court of Appeal allowed an appeal of the Revenue Minister's refusal to register an organization that provided a free electronic communication network. Neither CRA nor the Federal Court of Appeal accepted Freenet's argument that its objects and activities were analogous to those of a physical public library or community centre (both recognized as charitable). Instead, the court reached back to the Statute of Elizabeth's reference to "highways" and "causeways," holding, "I do not want to insist unduly on the analogy to the information highway," but "there is absolutely no doubt in my mind that the provision of free access to information and to a means by which citizens can communicate with one another on whatever subject they may please is a type of purpose similar to those which have been held to be charitable" (*FreeNet*).

Vancouver Society is also generally counted among the Canadian decisions that advanced or developed the legal concept of charity. The decision involved an application for charitable status by a British Columbia society that sought to assist and educate the community at large but that had a "particular (though non-exclusive) focus upon immigrant and visible minority women" (at para. 5). To that end, it provided career and vocational counselling, along with a variety of workshops and projects involving resumé writing, understanding foreign degree equivalencies, interviewing, and anti-racism initiatives (*Vancouver Society*). CRA refused to register the society as a charity, and a majority of the Supreme Court of Canada ultimately dismissed the society's appeal on the basis that its final corporate object ("to do 'all such things that are incidental or conducive to the attainment of' its other purposes") was too broad and vague to allow for charitable registration (*Vancouver Society*: paras. 193–195). Nevertheless, the decision expanded the advancement of the education head, which had previously been largely confined to "structured, systematic instruction" or traditional academic subjects. *Vancouver Society* introduced a more inclusive approach to education, which encompasses any information or training "provided in a structured manner and for a genuinely educational purpose" (at para. 170). In appropriate circumstances, the court held, "an informal workshop or seminar on a certain practical topic or skill can be just as informative and educational as a course of classroom instruction in a traditional academic subject" (*Vancouver Society*: para. 171).

While Canadian courts have occasionally adopted an expansive and creative approach to the definition of charity in the income tax context, they have more often refused to expand the bounds of the registered charity regime. Two cases illustrate this trend.[10] The first, *AYSA*, addressed the Minister of National Revenue's refusal to register an amateur youth soccer association on the basis that the promotion of amateur sport was not charitable. A 19th-century English case involving a yachting race stated that "a mere sport or game" should not be charitable (*Re Nottage,* 1895). *AYSA* acknowledged this common law authority but argued before the Supreme Court of Canada that "the time [was] ripe" for Canadian courts to recognize the public benefit and the charitable nature of promoting amateur sport (at para. 33). The court described the reasoning in the 1895 yachting case as "perfunctory" but relied on it nonetheless in declining to expand the common law definition of charity. The court dismissed the entity's appeal for charitable registration and held that recognizing youth soccer as charitable "would be a change better effected by Parliament than by the courts" (*AYSA*: para. 200). The Supreme Court of Canada also noted that the "registered Canadian amateur athletics association" (RCAAA) designation in the Income Tax Act accorded charity-like privileges to a narrower group of sports organizations that had "the promotion of amateur athletics in Canada *on a nationwide basis* as [their] exclusive purpose and exclusive function" (*AYSA*: paras. 34–40).

News to You Canada v MNR [*News to You*]*,* 2011, is a second case that illustrates the Canadian courts' reluctance to expand the common law concept of charity through analogy or reasonable extension of the existing case law. We have seen that, in 1986, the Federal Court of Appeal expanded the definition of charitable purposes to include the broadcast of Aboriginal media. In 2010, a nonprofit communications company attempted to build upon this development, seeking registered charity status to "produce in-depth news and public affairs programs designed to provide unbiased and objective information concerning significant issues and current events that are relevant to a large sector of the general public" (*News to You*: para. 2). On appeal from the negative registration decision of the Revenue Minister, News to You argued that the decision in *Native Communications* could reasonably be extended to the production of media programs on non-Aboriginal issues and that its in-depth news programs would benefit the public within the meaning of the common law. However, the Federal Court of Appeal rejected the appellant's argument, holding that unlike the society in *Native Communications*, News to You was "a mere vehicle for conveying news" (*News to You*: para. 18). The court also limited the ruling in *Native Communications* by emphasizing the "special position occupied in Canada by Aboriginal peoples" and suggested that a charitable purpose would more readily be found to exist where the charitable beneficiaries comprised "individuals from groups or communities commonly recognized as in need of charitable assistance" (*News to You*: para. 31). *News to You* did not generate an immediate legislative response. However, in 2019, almost a decade after the negative ruling, the Government of Canada announced its intention to extend charity-like privileges to nonprofit journalism (Morneau, 2019: 173). It remains to be seen how the amendments will interact with the registered charity provisions.

Why Have So Few Litigants Succeeded in Convincing the Courts to Advance the Legal Meaning of Charity?

Given the overwhelming number of failed appeals of the Minister of National Revenue's charitable registration and revocation decisions, it is worth asking why so few litigants have succeeded in convincing the federal courts to advance the meaning of charity to keep pace with new social needs. In this section, we briefly identify some of the obstacles to the judicial development of the concept of charity under the registered charity regime, before discussing the ways in which CRA policy functions to fill the gaps in the case law.

A first explanation for the very low number of successful appeals addressing the legal definition of charity is simply that very few parties choose to appeal charitable registration and revocation decisions under the Income Tax Act's statutory appeal procedure. The reticence to appeal is at least partly attributable to the high cost of litigation and the limited funds available to most nonprofit organizations. However, it is also attributable to principles of Canadian administrative law, which require the Federal Court of Appeal to accord a significant amount of deference to the registration and revocation decisions of the Minister of National Revenue.

For many years, statutory appeals from charitable registration and revocation decisions were governed by administrative law review principles (*Mouvement laïque québécois v Saguenay,* 2015; *Edmonton v Edmonton East (Capilano),* 2016).[11] An organization that was denied registered charity status could appeal the decision on the basis that the minister had incorrectly decided an "extricable question of law," including a question about the interpretation of the Income Tax Act. However, decisions on questions of fact or of mixed fact and law could be appealed only on the basis that those decisions were unreasonable (*Prescient Foundation v Canada (MNR),* 2013; *Credit Counselling Services v MNR* [*Credit Counselling*]*,* 2016). The Federal Court of Appeal held that reasonableness was the appropriate standard of review when the question was whether activities were charitable (*Fuaran Foundation v Canada (Customs & Revenue Agency),* 2004: para. 10), whether a registered charity had made a gift to a non-qualified donee (*Opportunities for the Disabled Foundation v MNR,* 2016), and whether a registered charity had failed to devote its resources to its own charitable activities (*Public Television,* 2015).[12] Where an organization's charitable registration had been refused or revoked for multiple reasons, the appellant faced the difficult task of demonstrating that the minister had acted unreasonably or incorrectly in respect of each ground (*World Job and Food Bank Inc v R,* 2013: para. 5).

The recent Supreme Court of Canada decision in *Canada (Minister of Citizenship and Immigration) v Vavilov*, [*Vavilov*], 2019, has changed the Canadian law on the standard of review. Courts are now required to apply (judicial) appellate standards of review to decisions that are subject to a statutory appeal to a court (*Vavilov*: para. 37). While the correctness standard will continue to apply to questions of law arising in charitable registration and revocation appeals post-*Vavilov*, decisions on questions of fact, and non-extricable questions of fact and law, will be reviewable only in cases of "palpable and overriding error" (para. 37). This change will make it even more difficult for parties to successfully appeal denials or revocations of registered charity status. Together with the prohibitive costs of a judicial appeal, the deferential principles of Canadian administrative law create a major disincentive for nonprofit organizations to appeal negative charitable registration or revocation decisions. By discouraging the initiation of statutory appeals, these principles also slow the judicial development of the legal meaning of charity.

A second explanation for the low rate of successful charitable registration appeals is that the federal courts have generally not applied equitable principles when deciding appeals under the registered charity regime. Historically, disputes over charity property were adjudicated in the English Chancery courts. These courts developed principles (later identified as "equitable principles") that oriented judges toward rescuing imperfect charitable gifts that might otherwise fail because of technicalities or ambiguous drafting.[13] The most general rule was that "the court leans in favour of charity" (Warburton, Morris, & Riddle, 2003: 175), and this generous rule provided a space in which courts could develop the legal definition of charity by reasonable extension and analogy. However, despite being constituted as a court of "law, equity and admiralty in and for Canada," the Federal Court of Appeal has generally declined to apply equitable principles in cases arising under the registered charity regime (Chan, 2016a). A number of unsuccessful charitable registration appeals have turned on minor drafting defects, or on the court's refusal to presume (contrary to the law of equity) that an organization's directors would carry out the objects of the organization in accordance with charity law (Chan, 2016a: 44–52). By declining to apply the curative principles of equity to applicants for registered charity status, the Federal Court of Appeal has further reduced the pool of cases in which the definition of charity might develop.

A third explanation for the very low rate of successful appeals addressing the legal definition of charity in Canada relates to the absence of provincial involvement in charitable registration appeals. Historically, in the English common law tradition, it was common for the attorney general to intervene in legal proceedings concerning the legal definition of charity. The Crown's chief legal officer did not advocate for either party to the dispute, but rather represented the interests of "charity in general" or the potential beneficiaries of the trust before the court. The Charities Act 2011 (UK) explicitly preserves this historic role, authorizing the Attorney General, acting as the protector of charity on behalf of the Crown, to apply for the review of any decision or order of the Charity Commission (s. 318).[14] The Charities Act also authorizes the Attorney General to refer questions of charity law to a newly constituted Charity Tribunal (Charities Act 2011: s. 326). As Lloyd (2007) points out, this provision was included "with the intention of ensuring that important questions may be resolved by the Tribunal without any particular charity needing to find the funds to bring a case."

The broad public mandate of the English Attorney General in matters affecting the definition of charity can be contrasted with the roles played by his Canadian counterparts under the registered charity regime. Because the management of charities is a matter of exclusive provincial jurisdiction under the Constitution of Canada, the Crown in right of Canada (or simply the Crown) does not enjoy the English Crown's prerogative powers with respect to charities. The Crowns in right of the provinces *do* enjoy the prerogative powers associated with the law of charitable trusts but have not adopted the practice of instructing their chief legal officers to appear in charity proceedings (*Bonanza Creek Gold Mining Co Ltd v R,* 1916). In practice, therefore, the Attorney General of Canada acts as advocate for the Minister of National Revenue in appeals of her charitable registration decisions, while the provincial Attorneys General do not appear at all. The result is that no public official acts as a protector of charity in general, or a representative of the public interest in charity property, in any federal proceeding affecting the scope of the legal definition of charity, making it even more difficult for the interests of charity to prevail.

How Has the CRA Charities Directorate Contributed to the Evolution of the Legal Meaning of Charity in Canada?

For the reasons discussed above, it has become increasingly rare for parties to appeal the Minister of National Revenue's charitable registration and revocation decisions. The lack of willing appellants means that little case law is being produced to guide the minister in registration decisions. The Charities Directorate fills some of the gaps left by this judicial inactivity by publishing extra-statutory guidance on the purposes and activities it considers charitable.[15] Over the last decade, these policies have arguably become the principal source of guidance for the nonprofit sector and the general public on what the term "charitable" means.

CRA's published guidance on arts activities provides a good example of the "gap-filling" role that CRA policy plays in setting the outer bounds of the Canadian charitable sector. There is no Canadian case law addressing whether, and in what circumstances, the advancement of the arts is a charitable purpose. The leading common law cases are English cases from the mid-20th century.[16] Arts organizations seeking charitable status in Canada therefore rely on *CRA Guidance CG-018*, specifically the section concerning arts activities and charitable registration, which states that, under the Income Tax Act, arts organizations may qualify for registered charity status as either educational or "fourth head" charities. *Guidance CG-018* cites the aforementioned English cases for the proposition that "activities that further the fourth category charitable purpose of advancing the public's appreciation of the arts must satisfy two criteria: *art form and style* and *artistic merit*" (*CRA Guidance CG-018*, 2012; emphasis in original). However, the 9,000-word guidance goes further than the case law, asserting without specific authority that in order to achieve registered charity status, "an organization must establish a common or widespread acceptance of both the form and style of art within the Canadian arts community" (*CRA Guidance CG-018*, 2012: para. 29). Appendix C to *CRA Guidance CG-018* lists "the art forms and styles that the CRA has consistently recognized to meet the art form and style criterion." Chamber music, short stories, and puppet work are all included on this list. However, applicants wishing to advance the public's appreciation of art forms that are *not* on the list, such as electronic dance music or blogging, face the uncertain task of demonstrating to CRA that those art forms have "common and widespread acceptance" within the Canadian arts community.

Much of CRA's extra-statutory guidance on charitable purposes and activities is relatively uncontroversial. However, it has proven challenging for CRA to develop satisfactory guidance on "hot button" issues such as the advancement of religion and the limits on political advocacy by charities. The CRA's approach to the advancement-of-religion category has so far been to provide as little public guidance as possible. The Charities Directorate has only one summary policy directed toward the scope of the third head of charity: it was published in 2002 and is only two sentences long. The Charities Directorate has apparently been developing a longer guidance on the advancement of religion as a charitable purpose since 2005 (Carter & Leddy, 2009). However, even though the "draft guidance" has been obtained under a Freedom of Information request and published online (Blumberg, 2017), it has not yet been confirmed as an official policy.

CRA has historically taken a more proactive approach to the issue of political advocacy. Until 2018, the details of where CRA drew the line between the "charitable" and the "political" were set out in Policy Statement CPS-022, "political activities," 2003. CPS-022 interpreted and fleshed out subsections 149.1(6.1) and (6.2) of the Income Tax Act, which permitted registered charities to engage in non-partisan political activities that were "ancillary and incidental" to their charitable activities and purposes, provided that "substantially all" of the charity's resources were not devoted to such activities (Parachin, 2017). The policy statement began by lauding the experience and expertise housed within charities and by affirming the "essential role" charities play in Canadian public policy debates. However, the policy went on to detail various "constraints" on the ability of registered charities to participate in such debates (CPS-022: para. 2). CPS-022 divided the activities of registered charities into three separate categories: (a) prohibited, (b) political, and (c) charitable (CPS-022: para. 6). Supporting, or opposing, any political party or candidate for public office was a "prohibited" activity. Communicating directly to a public official that a law or policy should be retained, opposed, or changed was a "charitable" activity. However, communicating *to the public* that a law or policy government should be retained, opposed, or changed was characterized as a "political" activity, which was subject to the well-known 10% expenditure limits.[17]

CPS-022 roughly tracked the common law authorities on charities and political purposes. However, it was evident from the policy statement that CRA took a stricter view than other charity regulators of the advocacy that the common law prohibits. For example, CPS-022 required registered charities, if publishing voting records, to publish voting records of *all* members of Parliament or a legislature and prohibited registered charities from "[singling] out the voting pattern on an issue of any one elected representative or political party" (CPS-022: s. 6.1). By contrast, CC9, the comparable policy produced by the Charity Commission for England and Wales, explicitly allows charities to provide information on how politicians voted on an issue "in order to influence them to change their position."[18] The English policy also allows charities to use emotive material in their campaigns, provided it is factually accurate (Charity Commission, 2008: s. 6.3, p. 23), while CPS-022 (s. 7.1) stated that it was "unacceptable for a charity to undertake an activity using primarily emotive material." It seems likely that the stringency of the constraints set out in CPS-022 contributed to a prominent registered charity's decision to challenge the constitutional validity of the limits on non-partisan political advocacy in a provincial superior court. In the resultant decision, the Ontario Superior Court of Justice held that parts of subsection 149.1(6.2) and CPS-022 unjustifiably violated the freedom of expression of the organization before the court, and declared them immediately of no force and effect (*Canada Without Poverty v Canada (AG),* 2018).

The complexity of the nonprofit sector and the open-ended language of the registered charity provisions drive nonprofit organizations, the Minister of National Revenue, and, ultimately, the federal courts to rely heavily on CRA policy in deciphering the bounds of the registered charity regime. There are merits to having extra-statutory guidance on the legal meaning of charity. Online policy documents on what it means to "advance the arts" or carry out "incidental advocacy" are far more accessible to the public than the 19th- and 20th-century English cases on which those policy documents are often based. Extra-statutory guidance can improve the predictability of the registered charity regime, encourage equality of treatment among the regulated, and reduce costly communications between charities and the CRA (Freedman & Vella, 2012: 197). In a sector where the legislature and the courts are so often silent, the development of extra-statutory guidance by officials with information, time, and expertise to focus on registered charities is arguably crucial (Green, 2018: 312).

On the other hand, it is problematic to rely too heavily on CRA policy to set the outer bounds of the Canadian charitable sector. "Soft law" always raises issues of democratic legitimacy, creating a risk that the regulatory body making the guidance may go beyond, or act inconsistently with, the intention of the legislature that authorized it to act (Green, 2018: 313). Relying on a regulator's extra-statutory guidance to develop the meaning of charity is especially problematic in a tax-based regulatory regime like the registered charity regime. First, the CRA Charities Directorate has a general tax administration mandate, which orients it, in the creation of registered charity policy, toward the protection of the fisc (the public treasury) and the maintenance of the status quo (Chan, 2016b: 109). Second, the CRA is not independent of the executive branch of the Canadian federal government. This makes it subject to political influence in the development of extra-statutory guidance affecting charities (Chan, 2016b: 140–142). Third, the Canadian courts have so far shown little appetite for submitting extra-statutory guidance to substantive review (Green, 2018: 337).[19] This makes it difficult for charities to challenge CRA policy documents on the basis that they are inconsistent with the Income Tax Act or with the case law on the legal meaning of charity.

How Does the Current Canadian Approach to the Legal Meaning of Charity Differ from That of Other Common Law Jurisdictions?

Historically, the Anglo-Commonwealth world shared a common law understanding of how the concept of a charitable purpose should develop. Over the last two decades, however, many Anglo-Commonwealth jurisdictions have undertaken wide-ranging projects of charity law reform. Jurisdictions such as England and Wales, Scotland, and Australia have created new regulatory bodies, specified the functions and objectives of their regulatory regimes, and enacted statutory definitions of charity (Charities Act 2011 (UK); Charities and Trustee Investment (Scotland) Act 2005; Charities Act 2013, (Australia)). These statutory definitions have tended to expand and make more specific the legal meaning of charity. Legislatures have added purposes such as the advancement of culture, the prevention of poverty, and the advancement of amateur sport to the traditional common law list of charitable purposes. Many modern charity law statutes also define key terms such as "religion" and "sport" and clarify the operation of the public benefit rule (UK Charities Act 2006: s. 1–3).

The fact that major Anglo-Commonwealth jurisdictions have enacted statutory definitions of charity, while Canada has not, has created a further impediment to the judicial development of the definition of charity in Canada. The reason is that foreign courts, and particularly the English courts, have historically produced much of the common law jurisprudence on which Canadian courts have relied in interpreting the meaning of the term "charitable/*de bienfaisance*" under the Income Tax Act. Up until 2006, the published registration decisions of the Charity Commission for England and Wales on topics such as internet rating software and the protection of the environment were also a source of argument and analogy for Canadian registered charity applicants. However, most Anglo-Commonwealth decisions on the meaning of charity are now based on judicial interpretations of a statutory definition of charity, rather than on judicial elaborations of the common law. Given the significant ways in which these statutory definitions of charity diverge from the traditional common law definition,[20] it is now much harder to argue that decisions emanating from the English or Australian courts are relevant to the interpretation of the Canadian Income Tax Act. This dramatically narrows the pool of cases that Canadian courts can draw upon in developing the meaning of charity through reasonable extension and analogy.

A recent decision of Canada's Federal Court of Appeal illustrates the impact that foreign codification of the meaning of charity has had on Canada's registered charity jurisprudence (*Credit Counselling Services of Atlantic Canada Inc v MNR* [*Credit Counselling*], 2016). Credit Counselling Services of Atlantic Canada Incorporated was a nonprofit corporation that had enjoyed registered charity status in Canada since 1993. In 2013, the Minister of National Revenue annulled the corporation's registration on the basis that its principal object, the prevention of poverty, was not charitable. Credit Counselling appealed the annulment to the Federal Court of Appeal, arguing that, in line with society's expectations, the court should incrementally adjust the common law "relief of poverty" category to include the prevention of poverty (*Credit*

Counselling, Factum of the Appellant: para. 28). The Federal Court of Appeal accepted that the question of whether the prevention of poverty was charitable was an “extricable question of law” that was reviewable on a standard of correctness. However, the court rejected the appellant’s invitation to expand the first head of charity, relying in large part on the fact that England and Wales had achieved a similar expansion through the enactment of the Charities Act 2011:

> In the United Kingdom, Parliament adopted the *Charities Act 2011*, 2011, c. 25 and in so doing included the prevention of poverty (in addition to the relief of poverty) as a charitable purpose. In effect, the Appellant is asking this Court to do that which required an act of the UK Parliament to do. In my view, just as in the United Kingdom, it will require an act of Parliament to add the prevention of poverty as a charitable purpose (*Credit Counselling,* 2016: para. 18).

Credit Counselling is further evidence of the Federal Court of Appeal’s view that the legal definition of charitable purpose should evolve principally through legislation. However, the decision also paints a bleak picture of how Canadian common law is likely to evolve now that Canadian litigants have a dwindling pool of foreign common law precedents upon which to draw. For in the absence of a case directly on point, the court was not prepared to contemplate that the common law methodology of developing the meaning of charity by extension and analogy to recognized charitable purposes might accomplish the same thing as the UK’s legislative change.

Conclusion

The project of this chapter has been to explore the evolution of the legal meaning of charity within Canada’s registered charity regime. We have identified various instances where the Federal Court of Appeal has *advanced* or *expanded* the concept of a charitable purpose, using the common law methodologies of analogy and reasonable extension to keep charity law moving in accordance with new social needs.[21] However, we have argued that the court has more often refused to draw analogies with the existing case law or to advance the concept of a charitable purpose. The cumulative effect of these refusals has been to *freeze* or *stultify* the Canadian common law of charity. Recent legislative developments, including the extension of charity-like privileges to nonprofit journalism and the amendment of the political activities rules, have reinvigorated debate over the proper bounds of the Canadian charitable sector. However, it remains the case that the principal way in which the legal conception of charity evolves in Canada is through the CRA’s publication of extra-statutory guidance on the purposes and activities that it considers charitable.

This is not an ideal state of affairs. Soft law has an important role to play in a regime of charity regulation. However, it is problematic to rely upon a charity regulator’s extra-statutory guidance as the primary mechanism for the concept of charity’s development. It is for this reason that we have sought in this chapter to address the “structural” obstacles that have contributed to the Federal Court of Appeal’s failure to meaningfully develop the concept of charity in accordance with the traditional common law methodology. If we can address some of these structural obstacles, or at least prompt Parliament, the provincial legislatures, and the courts to acknowledge their existence, perhaps the frozen Canadian law of charities will continue to thaw.

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Notes

[1] For full list of qualified donees see Canada Revenue Agency, Guidance CG-010, "Qualified donees." Available online: https://www.canada.ca/en/revenue-agency/services/charities-giving/charities/policies-guidance/qualified-donees.html. Registered charities are subject to onerous reporting requirements.

[2] See s. 149.1(1) ("charitable organization/*oeuvre de bienfaisance*"; "charitable foundation/*fondation de bienfaisance*").

[3] Citing *Positive Action Against Pornography v MNR*, 1988, at para. 8, for both the "definition of 'charity' in its legal sense as well as for the principles that should guide us in applying that definition."

[4] See "registered charity" (*organisme de bienfaisance enregistré*).

[5] The Income Tax Act specifies, for example, that the carrying on of a related business, the disbursement of income to a qualified donee, and public policy dialogue carried on in furtherance of charitable purposes are all charitable activities: Income Tax Act, 1985, ss. 149.1(1) ("charitable activities"), 149.1(6).

[6] For a criticism of this position, see Chan, 2007.

[7] Citing with authority *R v Salituro*, 1991, at p. 670.

[8] This paragraph from *Vancouver Society* is also cited with authority at para. 28 of *AYSA*, 2007.

[9] Such approach is set out in *Scottish Burial Reform*, 1968.

[10] Other notable unsuccessful attempts include: anti-nuclear war education in *Toronto Volgograd Committee v MNR*, 1988; anti-torture advocacy in *Action by Christians for the Abolition of Torture v Canada*, 2002; and ecological education through travel in *Travel Just v MNR*, leave to appeal to SCC refused, 31804 (May 3, 2007).

[11] Compare cases to *Housen v Nikolaisen*, 2002.

[12] But see *Action by Christians for the Abolition of Torture v Canada*, 2002 FCA 499, at paras. 23–24, where the FCA held that the characterization of a registered charity's activities as "political" was a conclusion of law that was subject to a correctness standard.

[13] See, for example, *Jones v T Eaton Co*, 1973, at p. 645.

[14] Neither the Australian Charities and Not-for-profits Commission Act 2012, nor the Charities Act 2013, have parallel provisions, but the New Zealand courts have adopted a practice of directing service on the Attorney General of appeals under the 2005 act: see Ellis (2018).

[15] The Canada Revenue Agency has developed an extensive collection of policy and guidance documents, which articulate its views on whether and in what circumstances specific purposes are charitable. See CRA, "Index of guidance products and policies," online: [https://www.canada.ca/en/revenue-agency/services/charities-giving/charities/policies-guidance/alphabetical-index-policies-guidance.html.](https://www.canada.ca/en/revenue-agency/services/charities-giving/charities/policies-guidance/alphabetical-index-policies-guidance.html)

[16] For example, cited by CRA, *Guidance CG-018*, 2012: ***Royal Choral Society v Inland Revenue Commissioner***, 1943; ***Shaw's Will Trusts, Re***, 1952; ***In re Shakespeare Memorial Trust, Lytton (Earl) v Attorney General***, 1923; and ***Re Litchfield***, 1961 at p. 754 (SC of Northern Territory of Australia).

[17] CPS-022 interpreted the statutory requirement that "substantially all" of a charity's resources be devoted to charitable – non-political – activities in the Income Tax Act, to mean 10% of the annual resources of most registered charities: see para. 6.

[18] Compare *Charity Commission* (2008: s. 4.3, 17). The issue in question must be linked to the charity's purposes.

[19] But see *Canada Without Poverty v Canada (AG)*, 2018, where the court considered CPS-022 in conjunction with ss. 149.1(6.2).

[20] For example, the UK Charities Act 2006, s. 2(3)(a)(ii) provides that the advancement of religion encompasses "religions that do not involve belief in a god."

[21] Such approach is set out in *Scottish Burial Reform*, 1968.

Biography

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Part II Navigating a Changing Environment

Governance and the Regulatory Environment

Chapter 6

Regulating Business Activity

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Charities and nonprofit organizations (NPOs) have come under increasing pressure to consider innovative ideas to generate revenue, employing novel methods and structures to achieve their goals. Although government funding of charities and NPOs has increased during the COVID-19 pandemic, there will likely be a downturn in revenues for those that rely on public donations and fundraising. As a result, these organizations will be further pressed to consider alternative revenue sources. This leads to a question: under Canadian law, are charities and NPOs permitted to operate a business?

The answer first requires consideration of what is a business? When does revenue generation become a business? The relevance of these questions has significant implications for both Canadian registered charities and other NPOs. Under the current system, Canadian charities have significant flexibility to generate revenue, provided the activity can be related to the purpose of the organization. NPOs have a more difficult time with revenue-generating operations because they cannot have a profit purpose.

Sector advocates have called for reforms in this area of the law to give both registered charities and NPOs greater flexibility to engage in business activities (Special Senate Committee on the Charitable Sector, 2019). Many in the sector have pushed for the adoption of the “destination of funds” test[1] that has been accepted in other Commonwealth jurisdictions. Adoption of this test would allow charities and NPOs to operate business activities to raise funds, so long as the funds are put toward a charitable or nonprofit purpose.

The regulations that are critical to this issue for either an NPO[2] or a registered charity are in the Income Tax Act (1985) (ITA), but different rules apply to each category of entity.

Discussion of charity and business in tandem raises the notion of "social enterprise." The term has been used to describe myriad structures combining social goals and commercial activities, and many describe the revenue-generating activity of registered charities and NPOs as social enterprises – and that they may be. For our purposes, the reference to these activities as social enterprises is irrelevant. The focus in this discussion is how and when these organizations can pursue revenue generation, and how the regulatory environment might evolve to enable them to take advantage of the opportunities to further support their mission.

This chapter focuses on the regulation of business activity by a registered charity and certain NPOs. It will examine the rules in the ITA, case law, and the Canada Revenue Agency (CRA) policies, guidance, and technical interpretations that govern the business activities of a charity or an NPO. It then describes structures used to comply with the rules. It concludes with a policy discussion that includes a review of approaches in other jurisdictions and suggests possible reforms to Canada's regulation of revenue generation in the voluntary sector.

Legislative Framework

Types of Corporate Structures

A starting point to our discussion is to appreciate that organizations can be legally incorporated in several different ways in Canada, with differing implications for how profits from business activities are treated.

Non-Share Capital Corporations

Non-share capital corporations may be established under the Canada Not-for-Profit Corporations Act (2009) or analogous provincial legislation (Companies Act, n.d.; Companies Act, 1973; Companies Act, 1988; Corporations Act, 1990; Corporations Act, 1990; Societies Act, 1988; Societies Act, 1989; Societies Act, 2000; Societies Act, 2002; Societies Act, 2015; Corporations Act, n.d.; Non-Profit Corporations Act, 1995). Such entities generally set out the purpose for which they exist in their corporate documents. The members of a non-share capital corporation are essentially the equivalent of shareholders of a business corporation and have ultimate control of the corporation through their power to elect and remove directors and approve fundamental corporate decisions. A key requirement of a non-share capital corporation is that the income is not distributed to the members. Unlike for-profits, non-share capital corporations do not earn revenue to benefit their owners. Rather, the surpluses earned are applied to further the identified purpose of the organization. Charitable organizations and NPOs are typically incorporated as non-share capital corporations.[3]

For-Profit Corporations

For-profit corporations are incorporated under the Canada Business Corporations Act (1985) or analogous provincial legislation. The central goal of a business corporation is to maximize profits for its shareholders. The shareholders are entitled to an interest in the underlying assets of the entity. This makes it quite distinct from the non-share capital corporations used by the voluntary sector. Any social or environmental objectives the business may have will generally come second to financial return for its owners. Unlike non-share capital corporations, for-profits are not limited in their purposes, and they can raise capital through the issuance of shares and debt instruments.

Hybrid Corporations

Hybrid corporations are relatively new. A hybrid corporation is typically a for-profit share capital corporation that commits to operating its for-profit business in a socially responsible and sustainable manner. Hybrid corporations generally earn a profit for their investors while achieving a social benefit, although they may restrict shareholder returns to make funds available for the social goals of the corporation. These hybrids are often offered up as a vehicle through which charities and NPOs could generate revenue without tainting their tax-exempt status. Hybrid entities have gained popularity in several countries, notably the United Kingdom and the United States. More recently, British Columbia (Business Corporations Act, 2002) and Nova Scotia (Community Interest Companies Act, 2012) each established a legislated form of hybrid corporation.

British Columbia's Business Corporations Act (2002) introduced the "community contribution company" (C3) in 2013. C3s are share capital corporations with a "community purpose" that can include health, social, environmental, cultural, or educational objectives or focus on providing other services to society at large (Business Corporations Act, 2002). The legislation provides for a 40% cap on shareholder dividends and requires that 60% of the C3's assets flow to one or more qualified entities on dissolution.[4] In 2016, Nova Scotia introduced the "community interest corporation" (CIC) under the Community Interest Companies Act (2012). Similar to C3s, CICs are share capital corporations with a community purpose. However, upon dissolution, all of a CIC's assets must be distributed to a narrower group of one or more qualified entities.[5]

What Do the Canadian Rules Say about Business Activities?

Charities and NPOs, while both established for purposes other than profit, are distinct entities subject to different laws and regulations, and different rules apply when asking how each organization can engage in business activities.

Registered Charities

There is no definition of a charity in the ITA. Under the ITA (s. 248(l)), a registered charity is defined as an entity that is resident in Canada, was created or established in Canada, and has applied and been registered by the Minister of National Revenue as a charitable organization or as a public or private foundation. Charitable organizations typically engage in their own charitable activities, whereas charitable foundations generate revenue to gift to other charities.

A charitable foundation is categorized as a public foundation if more than 50% of the foundation's directors, trustees, officers, or like officials deal at arm's length with each other (ITA, s. 149.1(1)). A public foundation cannot be controlled directly or indirectly by a person or group of people who do not deal with each other at arm's length and who have contributed more than 50% of the capital of the public foundation (ITA, s. 149.1(1)). A foundation that does not meet the requirements of a public foundation is designated as a private foundation (ITA, s. 149.1(1)).

All charities must be established for exclusively charitable purposes (ITA, s. 149.1(1)). A charity's object(s), as set out in its constating (incorporation) documents must further one or more recognized charitable purposes, including 1) relief of poverty, 2) advancement of education, 3) advancement of religion, and 4) public benefit determined by the courts (*Guaranty Trust Co. of Canada v Minister of National Revenue*, 1967; *Pemsel*, 1891). Further, a charity's purposes and activities must provide a benefit to the public or a significant section of the public (*McGovern v Attorney General*, 1982). Although a charity must provide a public benefit, it cannot confer a benefit to any one individual in particular (ITA, s. 149.1(1)). In other words, subject to limited exceptions, a charity cannot confer a private benefit on a third party that is not a beneficiary of the charity's purposes (Canada Revenue Agency, 2006, s. 3.2.4).[6] Further, a charitable organization's expenditures, assets, and resources must be directed only to activities that advance its charitable purposes (*Alliance for Life v Minister of National Revenue*, 1999).

Charitable organizations and charitable foundations must both meet annual spending requirements, meaning that they must spend a minimum amount each year on their charitable activities or gifts to qualified donees, such as other registered charities (ITA, s. 149.1(2)(b); s. 149.1(3)(b); s. 149.1(4)(b)).

Charities and business activities

Although charities have engaged in revenue-generating activities for years, they have done so under a complex array of rules and restrictions. Their revenue-generating activities are varied, ranging from operating gift shops, restaurants, and cafés to the licensing or sale of marketable software and agricultural products.

While charities may engage in business, how they do so is quite distinct from for-profit businesses. Charities do not answer to shareholders, nor do they gauge their success on profitability. Instead, they are held to account by their members and regulators. Their success is marked not by profit margins but by measures such as fundraising efficiency and dollars spent on programs. The one similarity between charities and for-profit businesses is that to be successful, they both must be able to raise capital to fund their ongoing operations and pursue their ultimate purposes.

Generally, all of a charity's resources must be devoted to furthering its charitable purposes. Resources used for other purposes, such as a business, are subject to strict regulation. The ITA explicitly permits charitable organizations and public foundations to carry on "related businesses" (s. 149.1(6)(a); s. 149.1(3)(a)). Charities designated as private foundations cannot carry on any business, related to the charitable purpose or not (ITA, s. 149.1(4)(a)).

"Related business" lacks a precise definition in the ITA, which has led to much confusion in this area of the law. Pursuant to the ITA, a related business includes a business that is unrelated to the purposes of the charity if substantially all persons employed by the charity in the carrying on of that business are not remunerated for that employment (s. 149.1(1)). The framing of the related business definition in this inclusive way leaves the issue of "what else" is permitted open to interpretation.

Two Canadian cases that have attempted to define "related business" differ in their interpretation, making this area of the law all the more puzzling. In *Alberta Institute on Mental Retardation v The Queen* (1987), the court held that the sale of donated household items to a retailer was closely associated with the objects of the organization because the profits of the activity were given to charitable organizations (as set out in the organization's objects) (para. 8). The court explained that even if the collection and sale of used goods constituted a business, it was a "related business," likening it to the operation of a cafeteria in an art gallery (para. 17). Under this "destination of funds" approach, a charity's business is permissible if its profits are furthering the organization's purposes. This was a welcome approach.

The Federal Court of Appeal in *Earth Fund v Minister of National Revenue* (2002), unfortunately, rejected the approach taken by the court in *Alberta Institute* (1987). The court did not accept that *Alberta Institute* was "authority for the proposition that any business is a 'related business' of a charitable foundation if all of the profits of the business are dedicated to the foundation's charitable objects" (*Earth Fund v Minister of National Revenue*, 2002, para. 30). To the charitable sector's dismay, the court specifically rejected the destination-of-funds test, failed to clearly define "related business," and did not provide a definitive test to determine when a business is in fact "related." The net result is that after *Earth Fund*, embarking on revenue-generating activities in such an uncertain environment became unattractive.

In response to the uncertainty in the case law, CRA published its Policy Statement CPS-019 (2003) summarizing its position on the business activities of charities. While CRA statements, rulings, and technical interpretations are not legally binding (*Owen Holdings Ltd. v The Queen*, 1997), they reveal, to some extent, how CRA administers the rules in the ITA and makes decisions regarding the operations of charities. Unfortunately, CRA commentary also often receives deference from the courts (*BBM Canada v Minister of National Revenue*, 2008, para. 46). CPS-019 sets out a two-step approach to determine if an activity is an acceptable related business: 1) determine if the activity constitutes a business, and 2) if it is a business, determine if it is a related business or an unrelated business. With respect to the first step, CRA considers several factors when determining whether a particular activity is a business activity: 1) a profit purpose, 2) potential to show a profit, 3) a history of profits, and 4) whether the people selected to carry out the activity were chosen because of their commercial expertise (Canada Revenue Agency, 2003; *Stewart v Canada*, 2002). According to the policy (para. 6), not all revenue-generating activities operated with an intention to profit are business activities. One example of an acceptable activity with a profit motive is a fundraiser. CRA (para. 12) explains that fundraisers are not caught by the related business provisions because fundraisers are not continuous operations that amount to "carrying on" a business. CRA (2012, para. 54) will examine the frequency of the fundraising activity: the more regular the activity, the more likely it is to be categorized as a business.

CPS-019 also confirms that fees are permissible for certain charitable programs. CRA (2003, para. 7) identifies three indicators that a charitable program involving a fee is not a business: 1) the fee structure is designed to cover the costs of the program rather than to generate a profit, 2) the program does not offer services comparable to those otherwise available in the marketplace, and 3) fees are set according to a charitable objective as opposed to a market objective.

Finally, CPS-019 states that soliciting donations, probably the most common charitable activity, does not constitute a business activity. This is the case for both cash gifts and gifts-in-kind.[7] CRA would likely not deem the resale of donated items to be a business. CRA notes that by selling donated items, a charity does not assume the costs or risk associated with buying goods for resale (para. 5). CRA (para. 5) will also consider whether the donated good is processed before resale, explaining that while selling donated goods may be fundraising, cutting and re-manufacturing donated clothing and then selling it constitutes a business.

The statements made by CRA about these examples of revenue-generating activities illustrate that the related business regime, although intended to be a concession to registered charities, is fraught with inconsistency. To suggest that fundraising isn't an ongoing activity for most charities is likely not supported by the evidence. A destination-of-funds test would avoid this concern.

CRA also suggests that the fact that for-profit entities may offer similar programs or services should be considered. If the tax policy position behind the tax exemption is accepted as the creation of surplus to support the charitable purpose, rather than to create wealth, this factor should not be relevant. CRA's statement that a similar provision of services moves something from charitable to business is not correct in law – if the revenue-generating activity is part of the delivery of charitable programming, it should be acceptable.

Ultimately, classification of an activity as a business is a question of fact. If the conclusion can be reached that the revenue generated is from charitable programs, the analysis ends. If the conclusion is that the charity is running a business, the analysis does not stop there. Operating a business activity will not make a charity noncompliant. The determination of whether a charity's business activity is offside the ITA requires the further consideration of whether that activity is a related or unrelated business. Again, this determination is made on a case-by-case basis.

Generally, for a business activity to be considered related, it must bear some relationship to the accomplishment of the charity's charitable purposes (Canada Revenue Agency, 1998). CRA (2003, para. 18) classifies related businesses into two types: 1) businesses run substantially by volunteers, and 2) businesses linked to a charity's purpose and subordinate to that purpose. The definition of "related business" in paragraph 149.1(1) of the ITA expressly provides for the first category. If an activity is run substantially by volunteers – that is, 90% of people running the activity, including direct employees and sub-contractors, are volunteers – it constitutes a permitted related business (Canada Revenue Agency, 2003, para. 18). If a business activity is not run substantially by volunteers, the definition in the ITA is silent and, as indicated, the case law has been unhelpful. CPS-019 reflects CRA's administrative policy on when a business is related. It states that the activity will be a related business if it is *both* linked and subordinate to the organization's charitable purposes. CRA (2003, paras. 20–30) states that a business is *linked* to a charity's purpose(s) if it falls into one of four categories: 1) a usual and necessary concomitant of charitable programs, 2) an offshoot of a charitable program, 3) makes use of excess capacity, or 4) involves the sale of items that promote the charity or its objects. Art gallery gift shops and hospital cafeterias are common examples of businesses linked to a charity's purpose(s).

CRA (2003, paras. 31–43) states that the activity is a *subordinate* where: 1) relative to the charity's operations as a whole, the business activity receives a minor portion of the charity's attention and resources, 2) the business is integrated into the charity's operations, rather than acting as a self-contained unit, 3) the organization's charitable goals continue to dominate its decision-making, and 4) the organization continues to operate for an exclusively charitable purpose by, among other things, permitting no element of private benefit to enter into its operation.

Consider the example of a charity with the purpose to protect the environment by conserving the habitats of Canada's endangered species. To raise funds, the charity decides to operate exotic animal shows. The exotic animal shows will be made available for children's birthday parties and other celebrations. The shows will be run by paid staff and will receive a minor portion of the charity's attention and resources. This business activity is likely to be subordinate but not linked to the charity's purposes. Therefore, CRA would likely deem it to be an unrelated business, not allowed.

The related business rules were introduced as a concession to registered charities in Canada in response to common law that suggests a charity can never have business activity. These rules were introduced at a time when the need for revenue generation was not as acute. Noncompliance with the rules comes with harsh consequences. CRA may revoke a charity's registration if it determines that the charity carries on an unrelated business (ITA, s. 149.1(2)(a); s. 149.1(3)(a)). It also has the ability to issue financial penalties (ITA, s. 188.1). If an organization describes an unrelated business in its application for charitable registration, the application will be denied (Canada Revenue Agency, 2003, para. 45), and it must eliminate or restructure the activity before reapplying for charitable registration.

Nonprofit Organizations

NPOs are organizations that are not registered charities but which otherwise qualify for tax exemption by meeting certain requirements under the ITA. There are many unique categories of tax-exempt organization contained in s. 149(1) of the ITA, some of which might be considered generally to fall into the bucket of NPO. For the purposes of this chapter, we are focused on the largest nongovernment category of NPOs – the organizations that claim tax-exempt status under paragraph 149(1)(I) of the ITA. Such NPOs are not required to apply for a tax-exempt status in order to qualify as an NPO. The types of organizations that claim this exemption range from "mutual benefit" NPOs to "public benefit" NPOs. In other words, professional associations or marketing groups may rely on the same provision for the exemption from tax as do community soccer leagues and youth organizations. They annually assert their entitlement to the tax exemption when filing a corporate tax return.

To claim this exemption, an organization must meet the following requirements (Canada Revenue Agency, 2001, para. 1; ITA, s. 149 (1)(l)):

a. it is not a charity;
b. it is organized exclusively for social welfare, civic improvement, pleasure, recreation, or any other purpose except profit;
c. it is in fact operated exclusively for the same purpose for which it was organized or for any other purposes mentioned in (b); and
d. its income is not available for the personal benefit of a member (subject to certain exceptions).

With respect to the first requirement, an NPO cannot have a purpose or purposes recognized as charitable under the four heads of charity. Instead, it must be organized and operated exclusively for social welfare, civic improvement, pleasure, or recreation or for any other purpose except profit. "Social welfare" involves providing assistance to disadvantaged groups (Canada Revenue Agency, 2001, para. 5). "Civic improvement" includes enhancement of value or quality of community or civic life (Canada Revenue Agency, 2001, para. 5). "Pleasure or recreation" means providing a state of gratification or a means of refreshment or diversion (Canada Revenue

Agency, 2001, para. 5). In other words, hobbies or pastimes. "Any other purpose except profit" is a catchall phrase for organizations organized and operated for other than commercial reasons (Canada Revenue Agency, 2001, para. 5). The requirement that an NPO cannot operate for a profit purpose has led to much debate. CRA has recently opted to rely on that phrase in a strict manner.

The final requirement that "no part of the income is payable to or otherwise available for the personal benefit of the member" is a critical element of the definition that speaks to the objective behind the revenue generation or "profit."

Nonprofit Organizations and Business Activities

A separate set of rules and possible consequences apply to NPOs engaged in business activities than to registered charities. Many smaller and community-based organizations in the voluntary sector are not registered charities. The requirement for exclusively nonprofit purposes with limited exemptions leads to a more restrictive revenue-generating environment for such organizations than for registered charities.

As noted, to qualify as a tax-exempt NPO under paragraph 149(1)(l), an organization must be organized and operated exclusively for social welfare, civic improvement, pleasure, recreation, or any other purpose except profit. The interpretation of "any other purpose except profit" is the area of greatest concern. The difficult question is what factual evidence is looked to when determining whether an organization has a "profit" purpose. If the analysis was primarily based on the issue of making income available for the personal benefit of members or the creation of wealth for those who control the organization, an NPO could securely establish this when it qualifies for the tax exemption. Unfortunately, CRA administers the provision much more restrictively, embarking on an analysis of the operation of the NPO and considering whether boards or management are operating with the *intent* to make a surplus or profit. The error in this is arguably that the governing body of any NPO could be challenged for not meeting their fiduciary duties if they operate in a deficit position. This conflict has made it very difficult for NPOs to obtain advice on the issue of qualification for tax-exempt status.

NPOs must be careful to ensure that profits from one activity are not used to cover expenses of another activity, as this will indicate a profit purpose (Canada Revenue Agency, 2011). The court in *BBM Canada v Minister of National Revenue* (2008) described this as a "threshold test": an entity cannot qualify for the tax exemption if it is unable to accomplish the objectives for which it was established unless it realizes profits with which to do that (para. 45). Otherwise, the jurisprudence has not developed a set of factors or criteria that enable a clear determination of whether an NPO has a profit purpose (*Canadian Bar Insurance Association v The Queen*, 1999; *Gull Bay Development Corporation v The Queen*, 1984). Again, given the lack of adequate case law, CRA has developed several policies that take a narrow approach to the issue. In determining whether an NPO is operating for a profit purpose, CRA will consider:

a. whether the organization budgets for a surplus of revenue over expenses; and
b. whether the organization has accumulated funds that exceed its needs in carrying out its nonprofit purposes (Canada Revenue Agency, 2001, paras. 8–9; 2002).[8]

CRA (2001) will question the nature of the surplus funds, including 1) how and why the surplus was accumulated, 2) the length of time over which the surplus has been accumulated, and 3) whether the organization is taking reasonable business steps to reduce the surpluses; for example, by adjusting the costing of its products or services.

CRA will question activities that have a commercial character, suggesting that they are in furtherance of a profit purpose. Interpretation Bulletin IT-496R (Canada Revenue Agency, 2001) states that it is a question of fact as to whether an organization is carrying on a trade or business and, if so, whether it will result in a finding that an organization is not operated exclusively for nonprofit purposes. The factors that might indicate whether an activity is a trade or business include a) it is a trade or business in the ordinary meaning; that is, it is operated in a normal commercial manner, b) its goods or services are not restricted to members and their guests, c) it is operated on a profit basis rather than a cost-recovery basis, or d) it is operated in competition with taxable entities carrying on the same trade or business. Generally, the carrying on of a trade or business directly attributable to, or connected with, pursuing the nonprofit goals and activities of an organization will not cause it to be considered to be operated for profit purposes (para. 7).

Another source of confusion is that CRA will acknowledge that in the right circumstances an NPO can earn a profit without it being stated that it has a profit purpose. Again, no specific criteria for an acceptable profit-making activity have emerged from case law. CRA (2009) has attempted to interpret the case law, concluding that any profit earned must be unanticipated and incidental. It adds that any profit must be generated from activities that are undertaken to meet the organization's nonprofit purposes (Canada Revenue Agency, 2009). Therefore, the one certain conclusion is that an NPO cannot earn a profit from a distinct activity in order to meet its nonprofit purposes, nor can it adopt a destination-of-funds approach to its operations.

Despite these restrictions, it is quite common for NPOs to earn incidental profits. CRA (2011) also accepts that NPOs can engage in fundraising activities and that such activities generally will not indicate a profit purpose. However, CRA (2011) explains that the fundraising activities must be incidental to the NPO's nonprofit purposes and cannot be a purpose in itself. In other words, an NPO cannot be established for the sole purpose of fundraising to donate proceeds to other not-for-profit organizations.

CRA (2002) recognizes that an NPO can invest in order to generate a profit to fund its activities. However, it indicates that an NPO would be offside the "rules" if it devotes an unreasonable amount of resources to the investment activities, going beyond passive investment (Canada Revenue Agency, 2002). In its interpretation regarding the application of this stipulation to condominium corporations, CRA (2010) notes that income is acceptable in the form of investment income earned on 1) contributed amounts from members that are earmarked for a particular capital project, or 2) reasonable operating reserves derived from member fees or incidental, generally unanticipated, income.

Ambiguity in the rules regarding the business activities of NPOs and mixed case law foster noncompliance. This is compounded by the fact that, unlike the application process for registered charities, there is no initial bottlenecking process to eliminate noncompliant organizations. The federal government's Non-Profit Organization Risk Identification Project (NPORIP) (Canada Revenue Agency, 2013), which documented NPO compliance with several rules, revealed that approximately 40% of sampled NPOs had profits in at least one of the years reviewed and these profits were incidental and related to the nonprofit objectives of the organization, and they did not result in reserves that were unreasonable. The *NPORIP Report* notes that "limited fundraising activities involving games of chance (e.g., lotteries, draws), or sales of donated or inexpensive goods (e.g., bake sales or plant sales, chocolate bar sales), generally do not indicate that the organization as a whole is operating for a profit purpose."

The most common issue identified by the *NPORIP Report* was the number of NPOs that operate for profit, resulting in either an accumulation of unreasonable reserves or personal expenses of members being subsidized by the NPO (Canada Revenue Agency, 2013). Thirty percent of the organizations surveyed were found to be "not operated exclusively for a purpose other than profit," with 14% earning profits of $50,000 or more.

The NPO rules, and in particular the general exemption now found in paragraph 149(1)(l) of the ITA, were arguably adopted to permit commercial risk protection and ease of operation for an organization that has a purpose other than for profit and is not a charity. The consequences of being offside the rules are serious. The organization would be required to file as a taxable entity and could face penalties and interest on prior years if the CRA took the position that the exemption was improperly claimed.

Hybrid Corporations and Business Activities

The ITA is silent on the business activities of hybrid corporations and provides for no special tax treatment for such entities. The income of CICs and C3s is taxed at the rate applicable to all other business corporations. From a tax standpoint, there is no distinction between a hybrid corporation's business revenue and revenue put toward its social goals.

Applying the Rules

Revenue generation is a critical source of alternative funding for charities and NPOs. As can be seen from the rules, however, an NPO or charity cannot generate revenue without obtaining sophisticated advice and doing proper planning. Care must be taken to do so efficiently, effectively, and in a way that ensures compliance. Using several examples, we review the questions organizations must ask when considering the implementation of a revenue-generation regime.

It should be noted that the tax compliance issues are not the only issues to be considered by a charity or NPO when looking at a business activity. Issues such as commercial risk and the desire to work with other partners or raise capital may result in a conclusion that the appropriate structure is a business corporation, trust, or partnership. Such options can be structured in a tax-effective manner, particularly when a charity is involved. Income that would otherwise be subject to tax in such a structure could be tax-exempt if distributed to a charity. If the structure is a corporation, income can be gifted to the charity. If it is a partnership, income flows to the partners to be taxed, and with a trust, provided the income is distributed to the beneficiary before the end of the year, it would be taxed at the beneficiary level. The charity, as beneficiary or partner, is tax-exempt, so no tax is paid. Where the establishment of a business corporation is needed for an NPO project, the issue does not resolve itself as easily. If the NPO earns dividends, partnership, or trust income, it could be argued to be indicative of an intention to make a profit. With the NPO, the profits tend to remain at the commercial activity level as the NPO has a harder time balancing the various issues.

Business Structures for Charities

Generally, a registered charity does not reach a decision to carry on a business and then ask how to do it. In most instances, a charity recognizes that it has a revenue-generating opportunity arising from one aspect of its operations or another. It then, when asking questions about the potential activity, determines that there are legal and regulatory issues to be considered before embarking on the opportunity. It is at this point that the charity must ask whether the activity is in fact a business. If it is, the next question is whether the business is an acceptable related business that can be operated within the registered charity or if it is a prohibited unrelated business. If a conclusion is reached that it is an unrelated business, then consideration of the appropriate structure for that activity is required.

One example is a charity that operates transitional housing. Its purpose is to relieve poverty by providing housing to persons experiencing homelessness. The charity holds property and originally hires a company to manage it but then decides to run the property-management operation itself to reduce its operating expenses. The property-management activity is run by the charity's employees, and volunteers assist with administrative tasks, working out of a room at the charity's main office. The operation is a success, and third parties recognize the charity is managing its own properties well. The charity is asked if it would provide its services to other landowners for a property-management fee at market rates. Is this a business? If so, does it meet the requirements to be a related business?

The first step is to consider whether CRA's four factors suggest that it is a business activity. Is there intention to generate a profit? Potential to show a profit? Existence of profits in past years? What is the expertise and experience of the people or organization undertaking the activity?

The housing charity is engaging in property management to fund the operating expenses for its charitable programs, charging a fee for its services. Because the charity hopes to raise funds, it sets its fees beyond the break-even point of its costs. The activity does not directly benefit the charity's beneficiaries, as the landlord clients of other properties are not users of its charitable programs and services. Further, property management is a service comparable to those otherwise available in the marketplace. Given all these factors, the property-management company is likely a business.

The next question, then, is whether the business is a related or unrelated business. This requires the determination of whether the activity furthers the purposes of the charity as listed in the charity's constating documents. If not, the business is unrelated unless, on the facts, the charity could amend its objects to include a charitable purpose that the activity will support. The property-management activities are not exclusively in furtherance of the organization's charitable purposes. The activity is more of a stand-alone operation than integrated into the charity's operations. This suggests that it is not necessary for the effective operation of the charitable programs. While it may be run out of a spare room at the charity's office, this does not equate to an acceptable use of excess capacity.

What if the housing charity added a new purpose, "to address youth unemployment by providing employment skills training to youth living in transitional housing," and used the property-management company to train youth living in transitional housing for a career in property management? On these facts, the activity would directly further one of the organization's charitable purposes, yet it would still be a business for the reasons outlined above. For it to be a related business, the business activities would need to be subordinate to the charitable purpose of providing employment skills training. If the property-management company existed to provide year-round skills training to youth, then it would likely be a related business. However, if it existed to earn profits for the charity, and simply accepted a few youth interns once in a while, it would likely be an unrelated business.

If the conclusion is reached that it is an unrelated business, the charity could consider several options. CRA (2003, para. 47) explicitly recognizes that a registered charity can establish a *for-profit corporation* and invest in the corporation so long as the investment represents a prudent use of the charity's assets and no private benefit is conferred on the corporation. One example of this structure is a charitable housing corporation with a for-profit subsidiary operating a real estate business. In this arrangement, the for-profit would be subject to tax, but it could donate up to 75% of its annual income to the charity, avoiding significant tax liability. To legally implement this structure, it is crucial that the charity remain separate from the taxable corporation. The charity must ensure that its activities are separate and distinct from those of the for-profit corporation. In this arrangement, any transactions with the for-profit must be for fair market value. Further, the two entities must keep separate books and records. Any intermingling could raise flags and risk revocation of charitable status.

Another option is a *joint project/partnership* between a charity and for-profit business. This is a common arrangement when two entities wish to combine operations to obtain government funding. A common way to structure this joint activity is for the charity and business corporation to incorporate a share capital corporation, each holding 50% of the shares. A charity considering this structure must ensure that any assets or resources transferred to the new share capital corporation, or any services provided, are for fair market value and the cautions noted above continue to apply.

A charity could engage in a business activity through the use of a *subsidiary hybrid corporation*. As with a subsidiary for-profit corporation, the charity retains control of the corporation as a shareholder. The same requirements of fair market value transactions and separate books and records apply to charities with subsidiary hybrid corporations.

A charity can also carry out business activities through the *creation of a trust*. Since a trust is not a legal entity, this arrangement requires creation of a corporation that would act as the trustee of the trust. It is possible to establish multiple business trusts, each holding a different asset in trust for the charity. This separates the risks of one business activity from another. A business trust is taxable at the top marginal rate on all its income. However, income distributed to a beneficiary is taxable in the hands of the beneficiary and not the trust. Thus, if a business trust distributes all profits to a beneficiary that is a charity, the business trust will have no taxable income.

Finally, a charity can hold an interest in a *limited partnership* that has a fair market value of not more than 20% of the fair market value of the interests of all members in the partnership and not be offside the related business rules (ITA, s. 253(2)). There may be certain scenarios where a charity chooses the partnership structure to further its activity.

Business Structures for NPOs

A review of the rules demonstrates that the analysis when considering these issues for an NPO is similar to the analysis when considering the issues for a registered charity. The primary difference is that the charity can generate surpluses when the activity falls into the related business category, whereas the CRA approach to an NPO is that any intention to generate a surplus could put the organization offside. This simply means that, when an NPO is considering its options, it must be careful to structure its activity so that any surplus derives directly from the operations that further its nonprofit purposes and that its planning focuses on sustainability and cost recovery, not generating profit.

Consider an NPO established for the purpose of operating support groups for cancer survivors. The NPO decides to operate a daycare and summer-camp program for the children of cancer survivors to fund its support groups. The daycare and summer program operate during support-group meetings, providing attendees with access to childcare for a fee. However, they also operate outside of meeting hours. Both programs yield high profits.

While these programs were likely created with the best of intentions, they are potentially offside the ITA. The NPO is using profits from the programs to cover the expenses of its support-group program, indicating a profit purpose. The profit is arguably not generated from an activity undertaken to directly meet the organization's nonprofit purposes. Although it can be argued that the daycare operating during support-group meetings is related to the NPO's nonprofit purpose because it makes meetings more accessible for participants with children, the CRA does not accept a "related business" in an NPO as being permitted. In order to operate the daycare, the NPO would have to run the daycare at cost.

To get around the restrictive rules and earn income from a business, NPOs (like charities) can employ various structures and combinations of entities. Just as social innovators and entrepreneurs look to different structures and means of combining entities to achieve social purposes, many charities and NPOs think outside the box, turning to creative structures to further their purposes and access new revenue sources. Because revenue generation by an NPO is more restricted than for a charity, it is more likely to require alternate structures.

As with a charity, an NPO can carry out a business activity in a separate vehicle (such as a share capital corporation or a business trust). This allows the tax-exempt organization to engage in a business activity without having to consider whether it furthers a profit purpose. This structure also protects the organization from liability that could arise from operating the business. Combinations of charities, NPOs, and for-profits can also be used to carry out business activities. Mixed-use housing projects serve as an illustrative example. A charity offering housing for people with disabilities and an NPO offering below-market housing can join with a for-profit developer to develop housing that provides for residential, commercial, and institutional uses.

Alternative Regimes

Sharing its origins with England, New Zealand, and Australia, Canadian charity law stems from the United Kingdom's Statute of Charitable Uses Act of 1601, also known as the Statute of Elizabeth, as well as the seminal decision of *Commissioners for Special Purposes of the Income Tax v Pemsel* (1891). Despite this shared origin, Canada does not take the same approach as these countries to the regulation of the business activities of tax-exempt organizations. Legislative developments and case law in Australia, New Zealand, England, and the United States have affected the law in this area, providing in some instances charities with access to much-needed revenue. Some jurisdictions have always provided charities with the flexibility to engage in business, while others have eliminated outdated restrictions on business activities.

The destination-of-funds test has been endorsed by two Commonwealth jurisdictions – Australia and New Zealand. The Australian High Court has accepted this test, permitting charities to engage in business activities so long as profits are put toward charitable ends. In the case of *Commissioner of Taxation of the Commonwealth of Australia v Word Investments Ltd*. (2008), several members of a Christian missionary charity founded Word Investments Ltd. to raise money for the charity. Word Investments gave its profits to the charity and other Christian organizations, but it did not engage in any missionary activities itself: its only activities were operating an investment fund and a funeral home. At the time, it was the view of the Australian Taxation Office that a charity could engage only in commercial activities that were ancillary and incidental to the entity's charitable purposes (Australian Taxation Office, 2005, para. 20). The court rejected this view, however, holding that:

> Word endeavoured to make a profit, but only in aid of its charitable purposes. To point to the goal of profit and isolate it as the relevant purpose is to create a false dichotomy between characterisation of an institution as commercial and characterisation of it as charitable. (*Commissioner of Taxation for the Commonwealth of Australia v Word Investments Limited, 2008*, para. 24)

The court rightly concluded that the raising of funds in a commercial manner to further a charitable purpose should not preclude an organization from being a charitable institution. What defines an entity as "charitable" is not whether it raises money by commercial means, but whether the money raised is ultimately put toward a charitable cause or charitable organization. New Zealand's position on the business activities of charities follows the decision of the High Court of Australia in *Word Investments*. A charity can carry on a business activity if the business's income is applied to charitable purposes (*Auckland Medical Aid Trust v Commissioner of Inland Revenue*, 1979; *Commissioner of Inland Revenue v Carey's (Petone and Miramar) Ltd*, 1963; *Commissioner of Inland Revenue v MTN Bearing-Saeco (NZ) Ltd*, 1986).

England takes a slightly different, more restrictive approach. English charities can engage in "primary purpose trading," which allows them to operate commercial activities to raise funds in furtherance of their charitable purposes (Charity Commission for England and Wales, 2014). However, unlike Canadian charities, English charities can operate businesses unrelated to their charitable purposes. While proceeds of primary-purpose trading are tax-free, income from non-primary-purpose trading (i.e., an unrelated business) is typically taxed, even where the profits are used to further charitable purposes (Charity Commission for England and Wales, 2014). If a business activity does not relate to the charity's primary purpose, it may still be exempt from tax if its gross annual income is below a certain threshold. English charities can also establish "subsidiary trading companies" (Charity Commission for England and Wales, 2014). These entities can be used to earn income that is not linked to the charity's primary purposes, and they protect the assets of the charity from any business losses. Indeed, the Charities Commission for England and Wales mandates the use of such trading companies where trading involves significant risk to a charity's assets (Charity Commission for England and Wales, 2016). While trading subsidiaries pay corporation tax like other for-profit companies, a trading subsidiary can return all its profits to its parent charity, excluding those profits from tax payable (Charity Commission for England and Wales, 2016).

The US law regulating the business activities of tax-exempt organizations combines aspects of Canadian and English law. US charities may operate businesses that are substantially related to their charitable purposes (26 USC §512). Charities that engage in business activities unrelated to their charitable purposes may be subject to tax on the income from these activities. If the unrelated business activity becomes "substantial," the charity may lose its status.[9] This tax was introduced to ensure fair competition between tax-exempt organizations and taxable companies (Internal Revenue Service, 2001: 2). US courts have relied on the "commerciality doctrine" to determine whether a charity engaging in commercial activities is operating primarily for tax-exempt purposes (*Better Business Bureau of Washington, D.C., Inc. v United States*, 1945). The doctrine holds that a charity may engage in activities of a commercial nature so long as profit does not become the primary pursuit of the organization (Brennan, 2002: 848). Whether a charity is entitled to tax-exempt status "turns largely on whether its activities are conducted primarily for a commercial or for an exempt purpose (*Airlie Foundation v Internal Revenue Service*, 2003).

Policy Options

The related business rules for registered charities were introduced to permit Canadian registered charities to generate revenues in situations where the common law of charity would have objected to the activity. These rules have permitted registered charities like the YMCAs across the country to operate and fund charitable programming. Some authors argue that the current rules, for registered charities at least, have worked quite well and question if there is a need for reform (Drache, Stevens, & Hayhoe, 2007). Others question the need for a nonprofit tax-exempt category at all. The reality is that confusion is at a level that reform is necessary. The question is, what reform should Canada adopt?

Destination of Funds

The adoption of the destination-of-funds test originally accepted by the courts in *Alberta Institute on Mental Retardation v The Queen* (1988) for both registered charities and NPOs would be welcome. When considering this strictly from the public-benefit NPO or registered charity perspective, the experiences in Australia and other common law jurisdictions in accepting the destination-of-funds test support the adoption of such a regime in Canada. If an organization can successfully generate revenue that will be used to further its charitable mission, why would the regulator not want to enable that result? Permitting organizations to become more self-sustaining is generally thought to be an attractive way forward.

The biggest hurdle to this idea in Canada seems to be the notion of the unlevel playing field and the possibility that such an environment would prefer the voluntary sector organizations over private ones. Businesses argue they would be prejudiced if the system permits these activities in tax-exempt organizations. This argument can be challenged on many levels, however. First, tax-exempt organizations are severely restricted in how they raise capital. For-profit entities are much more capable of pursuing economic activity and generating wealth and are provided with many benefits in the tax system for doing so. Second, there is no evidence that the activity of a charity or NPO creates unfair competition. Generally, the charity or NPO wants to generate as much revenue as possible from the activity that supports charging the same fees as others in the market. Finally, it is usually the case that the charity or NPO is operating a business-like activity coincident with fulfilling their nonprofit purpose. The activity should not be directly compared to the for-profit activity as it will have attributes that distinguish it and support the different treatment.

From a policy perspective, it can be argued that the critical distinction between these types of entities is that a charity or NPO generates revenue to further its objective, whereas for-profit entities are structured to generate wealth for owners. When considering how charities and NPOs can operate and whether business activity can appropriately be pursued, this key distinction should not be forgotten. The tax system insists on taxing the surpluses that will eventually increase the wealth and personal position of others. It does not tax surpluses that are intended to be applied to a purpose other than profit. That policy framework makes sense – if it works. Unfortunately, lawmakers have lost sight of that framework when applying the rules today.

At a time when government funding is under significant pressure and fundraising may be curtailed, the adoption of a destination-of-funds approach to revenue generation should be considered. The current rules do in some situations cause charities and NPOs to step back and refrain from providing services that could otherwise be supported.

Unrelated Business Income Tax

Would we want Canada to implement an "unrelated business income tax" as in the US? The allocation of revenues and expenses within this approach can be just as complex and unwieldy as the rules that exist today in Canada. On its annual return Form 990-T, a US tax-exempt organization must classify its activities as exempt or taxable and allocate revenues and expenses between exempt and taxable activities. Identifying both the revenue from an unrelated business and the directly connected expenses that are allowable as deductions is no easy task. Determining whether a source of income is unrelated business income (UBI) requires a three-part test involving an assessment of whether the income-generating activity is 1) a trade or business, 2) not substantially related to the organization's tax-exempt purposes, and 3) regularly carried on by the organization. Because the answers to these questions are not always clear, organizations risk under- or over-reporting UBI. It is certainly not clear that such a system would improve the ability of the voluntary sector to generate revenue. In fact, determining what would be considered to be in or out of the calculations would, in effect, be the same exercise charities and nonprofits embark on now. Agreeing to a UBI tax would likely mean that revenues currently earned as tax-exempt would become taxable. It is difficult to see how it would simplify the structures or improve the ability of charities and NPOs to raise revenues to further their purposes.

Hybrid Corporations

Another policy question is should the rules be revamped to somehow enhance the use of hybrid corporations for the sector? Would federal hybrid legislation provide a solution to the business restrictions on charities and NPOs? Some sector advocates do not think so. In particular, ONN (a group of approximately 60,000 NPOs across Ontario) has advised against modifications to the Canada Business Corporations Act to provide for hybrid corporations (ONN, 2015: 2). ONN (2015: 6) is highly critical of dual-purpose legislation, arguing that it is too complex and fails to ensure accountability to the public. Instead, ONN (2015: 8) advocates for increased flexibility for non-share capital corporations to earn revenue, so long as profits are used for activities that support their nonprofit goals. In other words, an appropriate destination-of-funds test should work.

While hybrid structures can be quite complex and onerous to operate, tax reductions may make them worthwhile for entrepreneurs and investors. With the right incentives in place, hybrid corporations can contribute to social innovation, providing the dual advantages of non-share capital corporations and for-profits. Such a result seems attractive, but wait: again, private sector for-profit advocates have complained about what they characterize as an encroachment on the "business" world by organizations that have tax-preferred status.

Which Policy Way Forward?

Upon reviewing the rules and various structures required for charities and NPOs to engage in business, it is clear that Canada requires a more refined and less restrictive system for regulating business activities. Case law and CRA policy have resulted in confusion and uncertainty. This uncertainty severely restricts charities' and NPOs' abilities to engage in business activities. Without a definitive test for whether an activity qualifies as a related business or furthers a profit purpose, there is no guarantee as to how an activity will be characterized by CRA. This uncertainty leads to a chilling effect, stifling innovation.

While certain structures can be legally employed to carry out business activities, they take time and financial resources to implement. The destination-of-funds test, adopted in Australia and New Zealand, would provide Canada's charitable and nonprofit sector with new and innovative ways to generate revenue. Implementation of the destination-of-funds test would not jeopardize the tax base but would permit public-benefit organizations to become more self-sustaining and productive in the future. Acceptance of this test would avoid the implementation of tax on unrelated business income, the approach taken by England and the United States. The unrelated-business tax, aimed at curtailing competition between tax-exempt organizations and for-profits, does not address the reality that charities and NPOs do business not to compete, but to survive.

Conclusion

We have examined the differences between charities and NPOs and how each entity is affected by restrictions on business activities. We surveyed how the business activities of tax-exempt organizations are regulated in different jurisdictions, arguing that outdated Canadian laws fail to meet the needs of charities and NPOs. Not only is Canada's system restrictive and ambiguous, it comes with harsh penalties. Failure to follow the rules can be grounds for financial penalties or revocation of charitable registration. NPOs risk losing their status and being assessed on taxable income.

While the creation of separate entities can be highly effective in enabling a tax-exempt organization to indirectly carry out activities that can both further its purpose and generate revenue, this is a costly and time-consuming solution. Further, if organizations do not employ these structures legally, they can face serious consequences. The adoption of the destination-of-funds test in Canada would be a boon to the nonprofit sector, avoiding the need to engage complex structures in most circumstances. In addition, organizations would be less reliant on traditional, yet increasingly scarce, funding sources. Now more than ever, charities and NPOs stand to benefit from reforms that would not only help them stay afloat, but help them thrive.

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Notes

[1] Also called the "destination of profits" test.

[2] Section 149 of the ITA lists many types of tax-exempt organizations, ranging from research and development entities to municipalities, all of which are tax-exempt, assuming they meet specific requirements and many of which are subject to their own specific rules.

[3] A charitable organization can also be formed as a trust or an association. An NPO can also be formed as a society.

[4] "Qualified entities" include community service cooperatives, registered charities, and other qualified donees, as defined in the Income Tax Act (Canada).

[5] "Qualified entities" include nonprofit associations within the meaning of Section 61A of the Co-operative Associations Act (NS), registered charities, societies incorporated under the Societies Act (NS), and certain *prescribed entities* – defined in the regulations.

[6] CRA states that a private benefit is acceptable if it is incidental to the pursuit of a charitable purpose (Canada Revenue Agency, 2006, s. 3.2.4)

[7] Gifts-in-kind are non-cash gifts such as real estate, equipment, or household items.

[8] Case law has held that the retention of excess funds will not, in and of itself, put an NPO offside the ITA (See *BBM Canada v Minister of National Revenue,* 2008).

[9] An "insubstantial part" of the charity's activities may be in furtherance of non-exempt purposes. (See 26 CFR § 1.501(c)I(3)-1(b)(1)(i)(b)).

Biography

Susan Manwaring and Katrina Kairys, Miller Thomson LLP

Susan Manwaring is the national lead of Miller Thomson's Social Impact Group, providing both general counsel and specialized tax advice to social enterprises, charities, and nonprofits across Canada and internationally. She advises foundations in the field of mission investing and social finance and counsels charities and nonprofit organizations on compliance and taxation matters and relevant provincial tax regulations. Susan was a member of the CRA Consultation Panel on the Political Activities of Charities. She is currently a member of the Advisory Committee on the Charitable Sector (ACCS) – a ministerial committee advising the Minister of National Revenue. Susan has been recognized extensively for her expertise and participates widely in sector activities, including many public policy discussions related to the regulation of the charity and nonprofit sectors.

Katrina Kairys practises charities and not-for-profit law as a member of Miller Thomson's Social Impact Group. Katrina advises charities, not-for-profits, and social enterprises on a variety of matters, including governance, incorporation, charitable registration, tax compliance, and gift agreements. She assists charities with revocation and dissolution, as well as mergers and amalgamations. Katrina employs results-oriented strategies to help clients achieve their missions while navigating the complex regulatory framework.

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

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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.

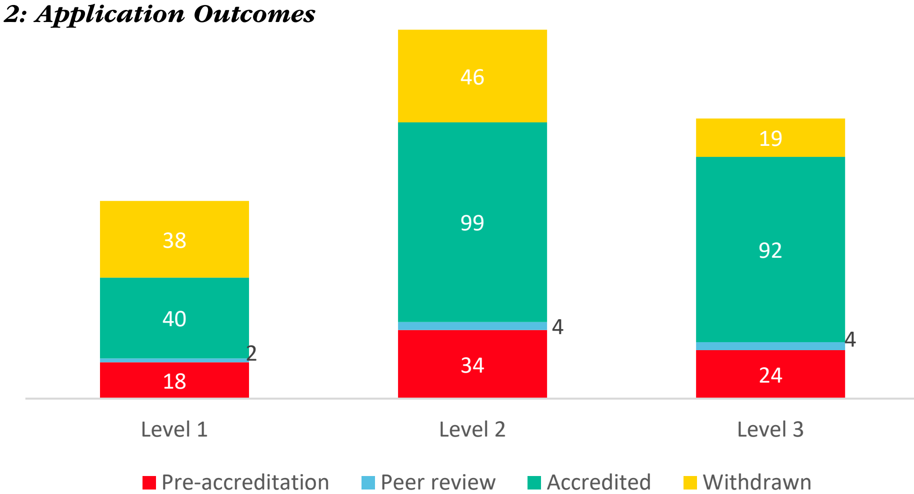
How Easy Are the Standards to Meet?

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?

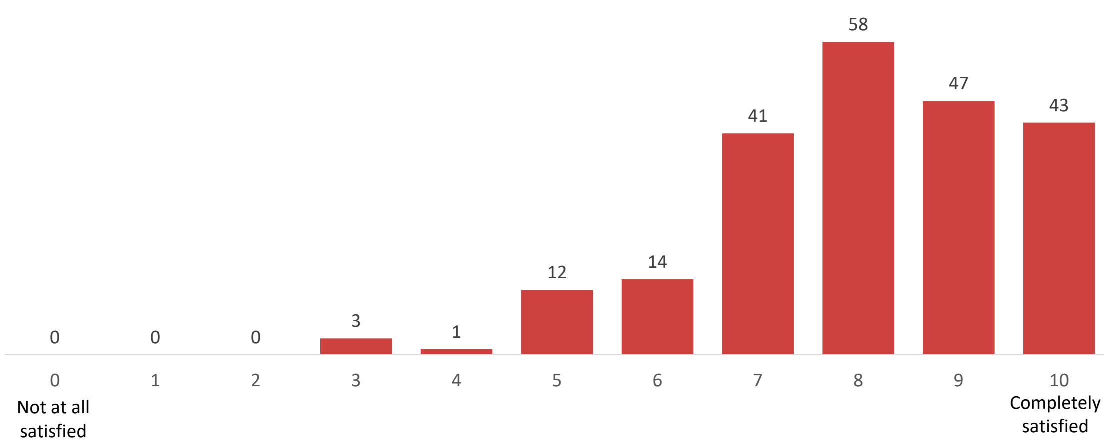


Figure 4: Perceived Benefits of Accreditation (Aggregate) by Organizational Size

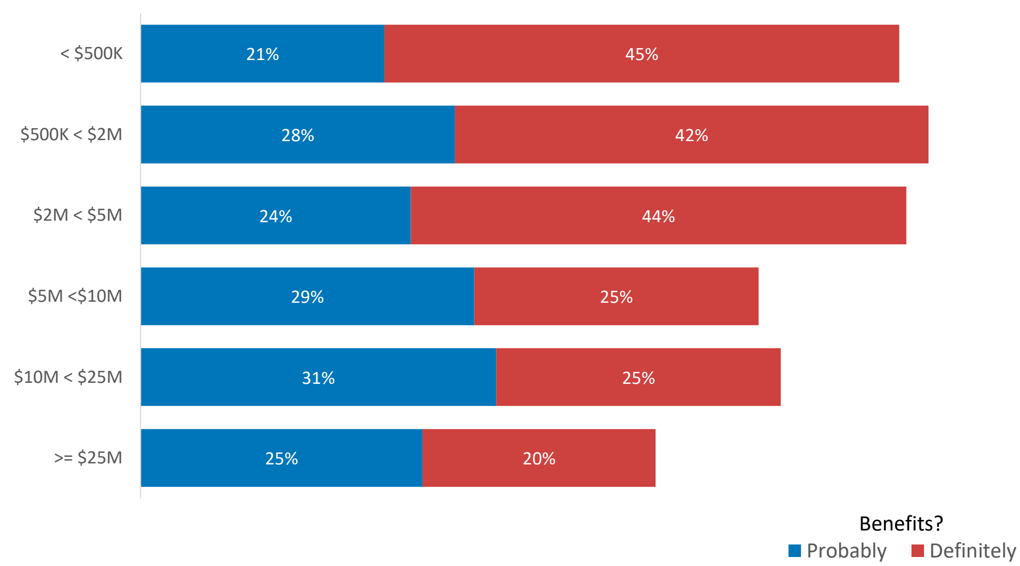
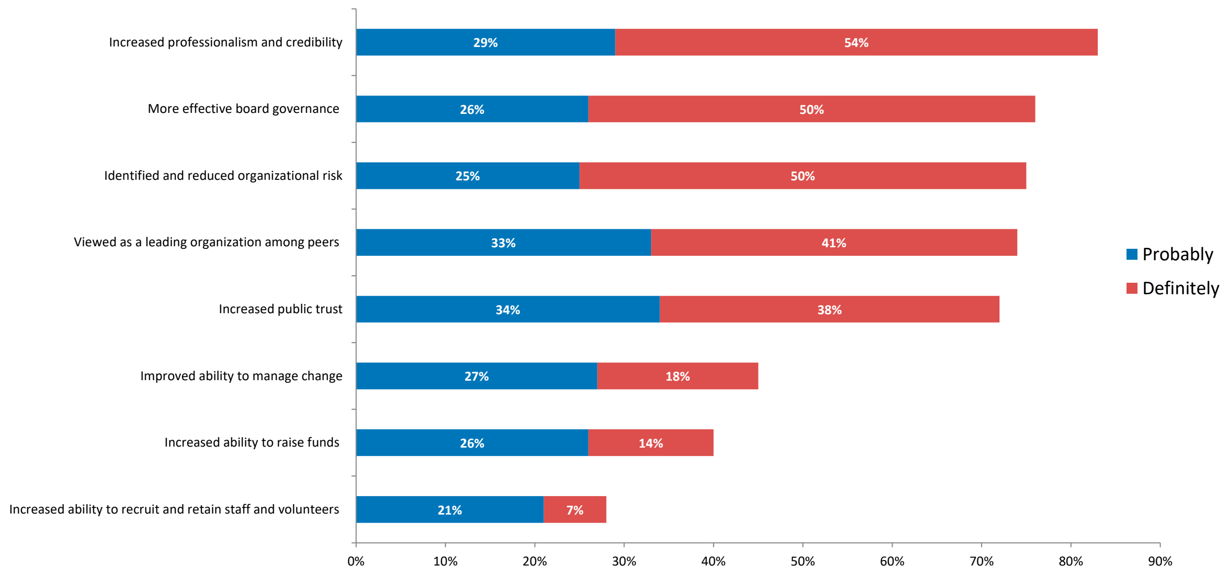


Figure 5: Type of Perceived Benefits of Accreditation



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.

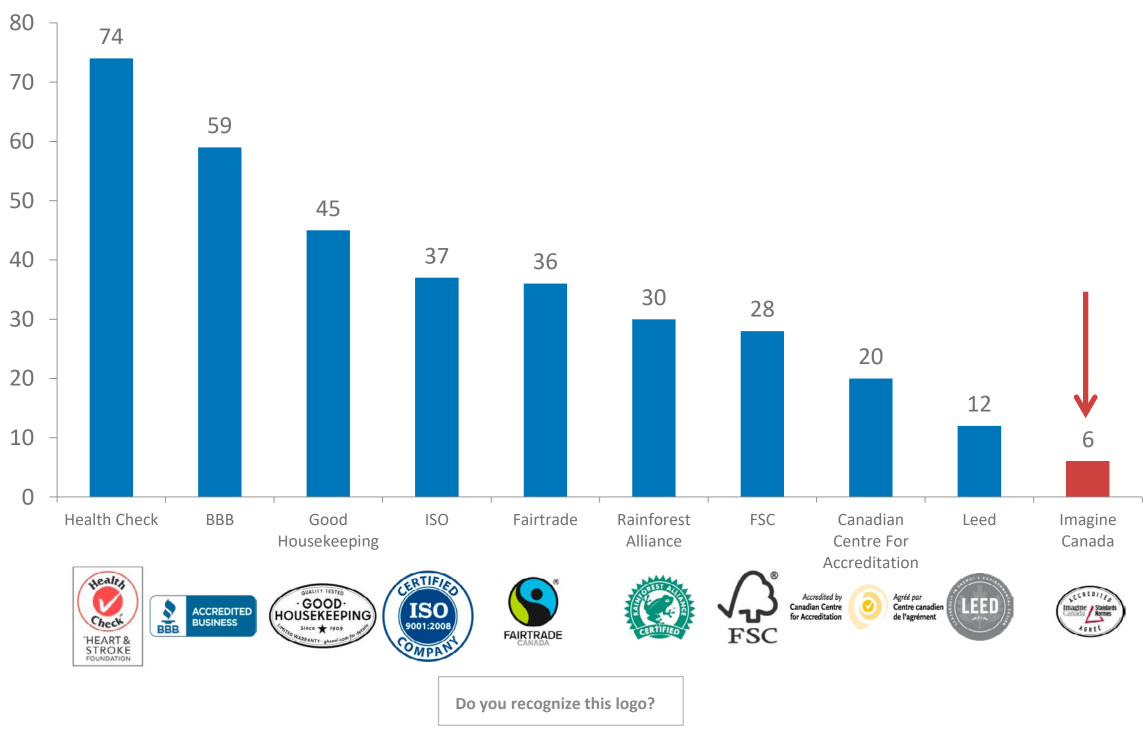
Effects on Volunteer Peer Reviewers

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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Susan Phillips is professor, School of Public Policy and Administration, Carleton University, and director of its Master of Philanthropy and Nonprofit Leadership (MPNL) – Canada's only graduate program in this field. She serves as editor-in-chief of *Nonprofit and Voluntary Sector Quarterly*, the leading international journal on nonprofits, philanthropy, and civil society, and is an associate of the Centre for the Study of Philanthropy and Public Good, University of St. Andrews, Scotland. Susan's research focuses on place-based philanthropy and public policy/regulation of charities and nonprofits. She is co-editor of *The Routledge Companion to Philanthropy* (Routledge, 2016) and is currently co-editing a book on disaster philanthropy and leading a study team exploring the question "What makes some charities more resilient than others?" Her work in advancing research in nonprofit studies has been recognized by a Distinguished Service Award from the Association for Nonprofit and Social Economy Research (ANSER) and in public management from the Canadian Association of Programs in Public Administration (CAPPA).

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.

Governance and the Regulatory Environment

Chapter 8

Board Governance in Practice

Owen Charters
BGC Canada

"But, I thought you were the boss …"

My son, age six, discovered that I had a boss, even though we'd previously described – in simple terms – that as a charity CEO, I was the boss of the organization. This discovery came as we embarked on a family adventure to meet my board of directors at a social engagement, and after a caution to him from my wife and I that he had to be on his best behaviour for "daddy's boss."

There are probably few things more complicated to describe than the true role and function of a board of directors. If only things could all easily be explained in terms a six-year-old could understand. Alas, a board does sound simple in concept but is exceedingly complex in practice.

Unlike the private sector, the nonprofit sector is unique in that all formally incorporated organizations require a board: there are no sole proprietors in this sector. Thus, if you work for a charity or nonprofit, you ultimately report to a board in some manner – you cannot escape this fact. Yet board management is an often-overlooked facet of a nonprofit's function. An executive director (ED) or chief executive officer (CEO) entering the role for the first time is probably steeped in some critical function of a nonprofit's operations – fundraising, programs, finance, or marketing – but is likely a rookie when it comes to managing the affairs of the board.

Franca Gucciardi and Alan Broadbent (2017), in their book *You're It! Shared Wisdom for Successfully Leading Organizations from Both a Seasoned and a First-Time CEO,* write:

> Being the key link between the board and the management of the organization is a very different thing. Learning to do this well is a priority. Successful CEOs manage their board to help it serve the organization effectively. Less successful CEOs manage their board to minimize its impact. Failing CEOs allow their board to manage them.

The rookie ED or CEO must learn quickly and navigate an expansive area of management: managing a board is not the usual case of "managing up" and dealing with only one supervisor. It requires managing the complexity of a group of supervisors that can act only collectively. Group dynamics complicate the relationship, as does the fact that first, boards are not usually involved in the day-to-day business of the organization, and second, board members often do not understand their role intricately.

The real challenge of advising on board governance in the nonprofit sector is that there is such a wide variety of boards, and of organizations governed by them. The sector is large, vast, and extraordinarily differentiated. Nonprofit organization causes run the full gamut of left- to right-leaning missions, from faith-based to entirely secular. Budgets range from revenue of a few thousand dollars to hundreds of millions annually. Likewise, an organization's structure might be simple, with a "working board" responsible for all operations as volunteers (where staff are nonexistent), or complex, with thousands of employees.

The result is that the required skills and knowledge of board members can be equally varied – oversight of a large, complex, multimillion-dollar organization that deals with multiple powerful stakeholders (such as a hospital or university that has many revenue sources and complex relationships with governments, unions, and the community) requires board members with skill and expertise that can match the management and strategic challenges of the organization.

And yet, in a small organization, board members must be knowledgeable in a variety of responsibilities, including the due diligence of financial oversight and the rigours of reporting required by the Canada Revenue Agency (CRA), especially if the organization has charitable status.

There is no small role on a board: the responsibilities are significant and serious. For-profit public boards had their wake-up calls after the disaster of Enron and the financial meltdown of 2008. Public for-profit governance came under greater scrutiny – and became more rigorous as the Sarbanes-Oxley Act (also known as the Public Company Accounting Reform and Investor Protection Act) came into force in the United States. There is ever-greater scrutiny of public board decisions, board composition, and compensation.

In contrast, nonprofit boards may be treated as the diminutive cousin to the "grown-up" challenges of for-profit boards. In fact, many recruiters advise individuals who seek business board seats to get a start by serving on a few nonprofit boards before they move to a for-profit. And many executive directors and CEOs lament board members who seem to put aside all their well-earned business experience when they come to the nonprofit board table. And it can be worse: board members at nonprofits may in fact be asleep at the switch and unaware of their obligations – literally. I attended a nonprofit board teleconference where one director snored audibly throughout. It's time for a wake-up call.

This chapter explores the styles, trends, and issues of nonprofit boards with a view to encouraging both CEOs and boards to wake up and better manage their relationships.

Board Function as a Whole

"What would happen if you didn't have a board?" This is a question that Ruth Armstrong, a Toronto-based nonprofit governance consultant, often asks the EDs and CEOs that she works with. She asks this quite earnestly as part of her personal quest to understand the function of a board in a modern organization, but the question is also rhetorical: are boards really necessary?

To understand the role of a board, it is an interesting thought experiment to imagine an organization without one. An analysis of boards and how they function may be best approached from a similar perspective as Armstrong's question: determining a board's essential elements and functions by building up their functions from a blank slate of governance. From there, it is easier to build out and explore the additional duties that boards have often accumulated – whether a "policy board," a "generative" board, keepers of strategy, employer of the ED or CEO, or other role.

Why a Board?

The essential role of a board stems from a trustee relationship. Holding something "in trust" means taking responsibility for, or managing, an asset on someone else's behalf. Indeed, nonprofit boards are often called "boards of trustees" in the United Kingdom (CCEW, 2018) as they are entrusted with assets – mostly donations that are then to be used under the guidance of the trustees to accomplish the purpose agreed to by the donor. There is an explicit understanding: if you give a nonprofit money, the board has the responsibility to oversee the use of that money according to the explicit or implied understanding at the time of the donation as to how those funds will be used. Thus, the funds are held and spent in trust. A trust is a legal instrument, describing the relationship between the trustor (the donor) and the trustee.

The trustee, in the case of a nonprofit, is a public body – an organized non-share capital public corporation. The minimum required to establish and govern such an organization (in all statute law, whether provincial or federal) is three directors willing to sit jointly as a board of trustees.

This is all to say that the requirement for a board comes directly from the trustee relationship and responsibility that a nonprofit organization holds. To be responsible at law for the funds transferred to it to further its cause, an organization must have a board of at least three directors.

This is the essential requirement for a board, but a board does much more than govern the use of funds entrusted to it. In fact, boards have accumulated a number of responsibilities and duties that go well beyond simple fiscal trusteeship.

It should also be noted that an organization can exist just as a board, without staff or other individuals involved. At its essence, the board is entrusted with the heart and soul of an organization; should all else disappear, the organization can continue with only its board as the critical organ of decision-making and legal identity.

So, how is this chapter any different than anything else that has been written about boards? With apologies to Winston Churchill, it might be said of nonprofit governance, *Never in the course of nonprofit governance has so much been written, and yet read by so few.* Indeed, it seems that nonprofit governance is a constant challenge for many organizations, with great hand-wringing and consternation, yet the resources, advice, and guidance available for those who wish to take action and make governance better is a vast treasure trove.

I fear that attempting to improve on the resources available is somewhat futile, but there are a few perspectives and current challenges that are worth writing about. My approach is to look at two ends of the spectrum: the board of the small organization and that of the large organization. The differing challenges faced by each type of organization are a good basis for a discussion of the issues and trends of nonprofit governance today. The intent is that boards of any size will recognize the challenges and issues discussed.

If you are seeking basic, essential resources on how to manage a board, or on nonprofit governance in general, there are incredible resources available, as indicated in Appendix A.

The Small Organization Board

There are real risks in the small organization board. First of all, what is "small"? It could be a number of factors:

- an organization with a small staff, or no staff, or inexperienced staff;
- an organization with limited revenue; or
- an organization with limited experience – a start-up or founding board.

A small board has several characteristics:

- the board is likely made up of individuals who are deeply engaged in the organization and its mission but may not have the expertise or experience to govern all the functions of a nonprofit;
- due diligence is critical, but knowledge of what needs oversight and to what level of detail may be lacking; or
- conversely, some board members may be too engaged in the work of the organization, especially if the board was a working board and has subsequently acquired staff. The defining line between the work of management and the work of governing may be ill-defined as a result, and some board members may feel it is their right to delve into non-governing tasks.

Due Diligence and Legal Requirements of Governance

Beyond simple trusteeship, nonprofit boards have duties by legal statute and through an accumulation of common law decisions. These duties can often be performed quite perfunctorily, and it is sometimes surprising how little a board actually *must* do to perform its duties. It's therefore even more surprising that many boards, no matter how sophisticated, fail in several of their duties on a routine basis. These duties include:

- ensuring compliance with incorporating documents, primarily through the bylaws;
- meeting requirements of accreditations or membership agreements;

- overseeing regulatory compliance;
- overseeing required reporting (e.g. to governments, funders, and others);
- hiring and managing the ED or CEO;
- overseeing financial health and sustainability; and
- managing risk.

Small boards need to focus on these requirements, often more than larger organizations. Small or nonexistent staff teams may not have the expertise and experience to fully span the breadth of requirements, and small organizations have often failed due to lack of compliance on key issues, such as rigorous financial reporting or simple failure to file an annual (mandatory) CRA T3010 tax information return.

The challenge of recruiting board members for smaller organizations is not an easy one, and finding board members who have a depth of organizational expertise, especially individuals who have knowledge of the unique requirements of nonprofit management, can be like finding a proverbial needle in a haystack.

The Start-Up, Working, and Founder Board

While nonprofits with professional staff earn the bulk of revenue in the nonprofit sector, most organizations do not have professional staff; the board then plays a functional as well as a governance role. In these cases, board members "get their hands dirty" with the tasks required to run the organization: fundraising and grant-writing, program delivery, et cetera. In these cases, there is usually a very pragmatic approach to getting things done. Consequently, board meetings are usually about reporting on tasks and projects, and then agreeing on and assigning tasks to be completed by the next board meeting.

There is often a joy or satisfaction that comes from doing this work as a volunteer, being part of a self-organizing team and accomplishing the critical work that unites each board member in the cause. This connection to the cause can also become a barrier to the transition of the board as an organization grows and hires staff. Hiring professional staff means an immediate loss of connection between the board members and the direct impact of their work and decisions, and traversing this change is often fraught with challenges and difficulties. It can be a time when board members leave and new members are recruited, and it can create difficult interpersonal dynamics. "Founder's syndrome" can also play a significant role, as individuals that were there at the start stick around, sometimes moving from a semi-staff role to a board role.

The Founder and the Board

There is one exception to the model of an overly engaged board in a small organization: if the organization has a strong, entrepreneurial founder, there is often deferment by the board to the directions and whims of the founder. In this case, if the founder is especially strong-willed and charismatic (often the required skills of a social entrepreneur who takes a cause and turns it into an organization), the board may be complacent and not exercise enough due diligence in their governing role, thus allowing the founder extensive rein to do as they wish. And why not? After all, each member likely owes their role to the founder (who may have asked them to join the board) and is able to enjoy the successes of an organization that grows rapidly under the ambitions of the founding ED or CEO.

Like any start-up entrepreneur, it is doubtful that any other individual cares as passionately about or is as devoted to the cause as the founder, so it is difficult for professional staff to meet expectations, once staff is hired. With board members prone to deferring to the founder's knowledge and passion, there is often a challenging transition when founding boards move to hire staff. During these transition periods – which can span many years – it is important that the board have a mechanism that allows it to step back and consider whether it is helping or hindering the development of healthy relationships, and allowing the organization to flourish. This relies on a capacity to challenge assumptions and to question the doctrine that may reside from the power of a founder's vision.

The challenge of moving from a founder-led organization to hiring the first professional manager is often fraught with difficulty. The board may have very high expectations of the successor, assuming they will fill all the roles that the founder did with equal charisma and vigour. In addition, the board has to navigate its own transition as it becomes a more engaged governing board, and less of a working board. The growing pains of these transitions can be exceptionally difficult for founders' successors, and it is a unique professional who, as the incoming ED or CEO, can successfully guide a board through this phase of organizational life.

The Large Organization Board

In large, established organizations, the challenges are different. It is likely that routine due diligence, such as financial disclosure and reporting, is a task competently undertaken by management, so only verification of compliance may be necessary. This removes a critical oversight function from the board's general work and allows them to focus on other issues facing the organization.

Due diligence is usually a matter of course because staff make reports and ensure compliance, and so the risks at the governance level are usually more of maintaining engagement of directors: they need to feel connected and useful.

Finding the Line of Scrimmage: The Role of the Board versus the Role of Staff

With professional staff comes the challenge of attempting to define the "responsibilities of management" and the "responsibilities of the board." The defining line between what is a management versus a board responsibility can be tough to see clearly for those in the midst of trying to govern or manage. But, just like the blue and yellow superimposed lines during the broadcast of a football game that mark the line of scrimmage and the first-down line for viewers, the demarcation between the role of the board and the role of staff can often be relatively clear to external observers.

Forms of Governance: Policy, Generative, Strategic

In order to resolve the issues of who does what – and how far the board goes in playing a role in various types of oversight or supervision – models have been proposed that help to identify and contain board mandates. There is considerable debate about what models or forms of governance are appropriate – and whether each fulfils, or oversteps, the role of the board.

Policy Governance

The policy governance model, proposed by John Carver (1997) and often known as the “Carver model,” requires a board to prescribe policy in 10 distinct areas and distinguishes clearly between management and governance roles (Hough et al., 2004). The Carver model covers a wide range of critical board roles, although it has been criticized for not encompassing all that is legally, or strategically, required. It has been designed to keep the board out of management issues, a philosophy some describe as “noses in, hands or fingers out,” to indicate that curiosity is fine but interference in management issues is not.

One of the ideas within Carver’s model is that a board should not have committees: anything that needs to be discussed should come to the board as a whole. This may not be practical, however, with the increasing complexity of issues that boards must consider in their due diligence, and the depth of discussions that must take place as a result. Depending on the board’s size, and the frequency and duration of its meetings, overseeing all these elements in depth at the board table can be difficult.

Although this model’s popularity has waned, Carver boards continue to be found across the nonprofit spectrum, usually modified from his strict model to accommodate the need to govern some functions in more depth than the model offers. While boards still often maintain that they are “policy” boards, what they mean by this should be actively defined. There is little to be taken at face value when a board declares to recruits that it is a policy board; rather, a new director needs to actively explore what this means and how the board operates.

Strategic Governance

It is commonly stated that “boards own strategy.” The board being the highest level of authority in an organization, and strategy considered the most fundamental or highest-order of decision-making that guides all other decisions, strategy and boards seem to be aligned. Boards often meet infrequently, however, and individual board members may have experiences vastly different than the operating and competitive environment of most nonprofits. Thus, there is a significant knowledge gap that must be broached every time the board considers strategy. As a result, organizations have become more pragmatic about how strategy is developed: increasingly, boards validate strategy, but the strategy itself is crafted at the management level.

In fact, a strong executive team should spend its time crafting strategy and understanding how to compete and play in their specific subsector and revenue environment and how to move the needle on their mission outcomes. The board must be able to challenge and verify that the proposed strategies are robust and well-considered. The board also needs to have enough information to hold the organization accountable for the ongoing execution of the strategy or, perhaps even more importantly, signal when it may be time to change course if the strategy needs to be altered, or the current plan abandoned entirely.

Generative Governance

In their book *Governance as Leadership: Reframing the Work of Nonprofit Boards*, Chait, Ryan, and Taylor (2005) define board responsibilities as fiduciary, strategic, and generative. Generative governance attempts to fulfil the desire for board members to make meaningful contributions to board discussions – even though most board work is the dull requirements of fiduciary due diligence, with the occasional discussion of strategic oversight. Generative conversations at the board consist of creating alternatives to current directions, asking "wicked questions," and getting deep into issues.

These generative discussions get at questioning strategy, thinking of new areas for development, or exploring fundamental issues. Setting aside time at board meetings for this work, or bringing in expert speakers or facilitators to assist in exploring ideas, can be very rewarding for board members and can increase engagement at board meetings. Of course, it also requires more work and support from staff – and staff may need to be prepared for the unexpected directions that discussions may take. Including more generative work in board meetings is increasingly becoming a best practice on well-functioning boards.

Each of these models attempts to define board work, and each also responds to the demands of board members to contribute. Effective CEOs devote considerable time and energy to ensure that boards do the required work but also are engaged in the organization. The challenge can be that this often feels like "make work" projects, and can even lead to distractions as the board follows a new issue, and may direct management to pursue a project or issue that is not mission-critical. The idea of generative governance, in particular, was developed in response to the need of boards to feel engaged, but these discussions at the board table must be well-managed, and appropriately set up, for a valuable discussion to ensue.

Board engagement, in this case, refers to the fact that board members are contributing significant time to attending meetings, (hopefully) reading pre-circulated materials, and serving as ambassadors for the organization in the public eye and in social settings. They are personally invested in the organization, and each individual often feels the need to be contributing intellectually to the conversation at the board table. Fiscal oversight and fiduciary responsibility don't often lend themselves to this sort of creative engagement. Recruiting talented, successful, and influential board members leads to these individuals wanting to contribute as thought-leaders.

Selected Trends and Issues in Board Governance

There are robust, ongoing discussions about who should sit on boards and what their individual roles are. Are board members *reflective* or *representative*? Should they have responsibilities to fundraise? Is there appropriate diversity on the board? Are boards ready to take on the risks necessary for modern nonprofits or do they gravitate toward generic group-think?

Many of these issues relate directly to the recruitment of directors. Recruiting a board is one of the most difficult challenges of an organization, yet less time and attention is often paid to this task than to anything else. While there may be numerous discussions of what sort of board member is desired, for instance, in terms of qualifications, representation, and other qualities, finding the actual individuals who fit the bill is the harder and more intensive part of the work. Boards that discuss and decide how to approach many of the issues below will be better served in their recruitment efforts, as they can better target the individuals they require.

Reflective versus Representative

A *reflective* board, ideally, is made up of directors who individually do not represent specific constituents but must act while considering all the facets and issues that the stakeholders and members of the organization may bring to the table. In this respect, a reflective board is more like an impartial jury, selected not to bring bias or preconceived directions to the board table, but ready to consider, debate, and decide on issues on the basis of what is good for the majority of members or constituents, and in the best interest of the organization itself.

The concept of a reflective board is important, as it speaks to the capacity for a board to work at a higher level, not simply debating entrenched positions or delving into difficult political exchanges of views. In practice, however, it can sometimes be difficult to achieve a truly reflective board: individuals bring biases and personal experiences to the table, and all board directors could be subject to lobbying by members or stakeholders. Many boards aspire to work in a reflective manner, however, and frame board guidelines around this model.

Representative boards are often found where members have strong voices and play a significant role in directing governance. This can happen when there is a direct election of directors, as opposed to a slate that might be proposed by the board for election. In a representative board, each director feels responsible to fight for the issues or mandates of the constituents who brought them to the table. These boards can be highly political, and as a result, board meetings can be contentious. It can also be difficult for representative boards to delve into higher orders of strategic or generative discussions, as the political debates require intense focus on process and procedure to ensure all viewpoints are fairly heard and dispensed with appropriately.

Fundraising Boards

Some organizations have a mandated "give, get, or get off" role for board members. This typically happens in strong fundraising organizations where philanthropy is critical to revenue success. These boards demand not only that members give of their time, but that all contribute financially and assist in raising funds from their own networks.

The strength of this philosophy has seeped into the collective notion of the role of a board member in any charity, and donating and fundraising are often seen as virtual requirements of any nonprofit board. This is not necessarily the case, however, and every board should carefully reflect on what role board members should play in fundraising. Ultimately, board members are not responsible for fundraising, or even personal giving, but they are responsible for ensuring revenue is sufficient. They should care about the fundraising function and can assist, if not lead it themselves. An understanding of the organization's revenue strategy, including its fundraising plan, revenue diversification, and shortfalls therein, are very much critical board functions.

Diversity in Governance

Boards are increasingly concerned about whether they have the appropriate diversity to reflect the populations they serve. They may consider gender balance but may also increasingly examine whether they are able to represent the various stakeholders of the organization. Boards are seeking directors with lived experience in the mission of the organization (for instance, a social housing organization may seek individuals with experience being homeless). They may want to reflect the diverse racial, cultural, geographic, and linguistic backgrounds of their constituents. They may also seek various skills, such as legal, financial accounting, fundraising, and other critical skills necessary to the successful management of the organization.

Diversity must be approached cautiously, as token representation can backfire quickly or have no effect whatsoever except for the cosmetic appearance of diversity. There are some Indigenous individuals, for instance, who are repeatedly approached to fill board seats. These requests reflect organizations' desire to claim they have Indigenous representation; in doing so, they look to the few individuals already on boards. However, cultivating genuine relationships in various Indigenous communities is a longer, more engaging process. But it is one that will ultimately result in greater interest from these communities in the governance of the organization based on genuine interest and concern, not merely the desire of a board to recruit and fill a designated "Indigenous" spot.

Similarly, some boards seek members who can represent a youth voice. This is ultimately a tall order for a young board member who has to face older, experienced directors across the table and somehow speak knowledgeably and capably on behalf of the multitudes of Canadian youth.

Board diversity is a difficult issue, and boards are wise to consider why they want diversity – to what ends, and therefore, what means they will use in building or cultivating the diversity they desire.

Risk-Taking

Boards are notorious for not taking risks. I have witnessed several CEOs grumble after a board meeting that a great strategic idea was undone by the group-think of the board after a well-meaning director raised a minor concern. Because nonprofits often have few resources to dedicate to risky ventures, and often cannot afford to fail, boards often act with an "abundance of caution," and their due-diligence mindset can overtake any entrepreneurial notions.

While the board is responsible to mitigate undue risk, members should be prepared to encourage smart risks. Board members who are willing to spend the time and energy to review the details of riskier proposals are more likely to understand the projects put before them and to really evaluate the capacity for success. Boards that engage in more generative discussions may also feel more comfortable with the thinking and processes that have led to some of the riskier propositions they may encounter.

As organizations increasingly compete for scarce resources, competitive organizations will be those that can take on calculated risks effectively, including the pursuit of mergers (which are occurring more frequently in the nonprofit sector). They will need board members who are ready and willing to make the required investments to explore these new, riskier ideas as they come up – and, in fact, might be the ones who present them at the board table.

Nonprofit versus For-Profit Corporate Boards

As mentioned earlier, recruiters often advise those who hope to serve on a corporate board to first gain experience by joining a nonprofit board. This is both useful and detrimental. On the useful side, there are many nonprofit boards that are seeking good directors. However, nonprofit boards require experienced directors as much as any corporate board.

So what are the differences between nonprofit and corporate boards, and are there similarities and differences that might be valued?

Compensation and Professionalization

By statute, directors serve on nonprofit boards without remuneration. This does not prevent directors from claiming expenses or even receiving a per diem; however, most governance consultants discourage the latter. Because nonprofits are non-share capital corporations, and exist for a purpose other than profit-making, paying directors is an ethical quagmire. Jane Garthson (2011), a governance consultant, writes:

> … nonprofit board members should not be paid for board service. Instead, they should be giving their time to the cause. If the nonprofit is a charity, the intensity of feeling against such payments goes up – way up. Charity directors are expected to give both time and money, not be a drain on charity resources. Seeking such payments from a charity is perceived as highly unethical.

Still, there are advocates for director compensation, especially for larger organizations where competition for experienced and knowledgeable directors increases. In the UK, this debate was made very real, as the Charity Commission allows a handful of large charities to compensate directors (Ramrayka, 2012). This opens the door to the professionalization of directors.

Arguments for compensation focus on the demand for nonprofit directors to understand the intricacies of charity tax law, financial oversight of complex charities and social enterprises, and holding management accountable for achieving the organization's mission – a role that is complicated by the lack of common measurement tools and accounting standards in the sector. Indeed, directors at larger organizations may require training to fully understand their duties and responsibilities. The risks they take on also increase in scope and cannot be mitigated entirely by directors and officers (D&O) liability insurance. If the sector intends to continue to attract high-quality, experienced directors who will take on the risks and work required, the debate about compensation may be at a starting point.

Training and Education

The Institute of Corporate Directors (ICD) has created a program to educate nonprofit directors in their roles. In conversations with Don McCreesh, a governance consultant who sits on the executive committee of the ICD's Ontario chapter, he emphasized the usefulness of director training such as that provided by the ICD. However, he also laments the lack of accessibility: the program's cost, length, infrequency, and small class sizes are challenges when attempting to train the multitude of directors and aspiring directors in Canada. McCreesh envisions a simplified and summarized half- or full-day version of the program that's available in workshops across the country at a low cost.

There is definitely a need for greater training of directors in the nonprofit sector. Issues of reporting, accreditation, revenue strategy, and diversification all require increasingly sophisticated and specialized knowledge. The more training that is accessible and available, the stronger governance will become for the sector overall.

Incorporating Promising Practices from the For-Profit Sector

There are several for-profit practices that may be of use in the nonprofit sector but have yet to take hold. Despite the demands placed on nonprofits, and especially on charities, to disclose significant financial information through the T3010 tax return, there are other areas of disclosure that are either required or common practice at publicly traded companies that could be of benefit to nonprofits and their stakeholders. These practices were instituted to demonstrate accountability for good governance – effectively, to answer the question for investors that the board is indeed doing a good job and putting in the work required.

Board Diversity and Composition

Boards struggle continuously to recruit a diverse cohort of directors. They may also need to ensure representation of key stakeholders, from funders to members or "clients" (those served by the mission of the organization). Publicly traded boards often disclose the relevant skills and backgrounds of their board members and nominees, while nonprofit boards simply note the individual's name, professional affiliation, and place of residence. A biography might be circulated in an election kit, but a full annual disclosure of board competencies and experience may prove to be a useful tool for governance accountability.

Board Education and Attendance

Board attendance and education is also a much-discussed topic. Board members need to understand the organization they serve, and also the functional topics they need to oversee, from financial risk to government relations and beyond. Again, filings in the private sector often disclose two key factors: how many board and committee meetings directors have attended, and if they have attended board education sessions.

Increasingly, organizations are adding agenda items to board meetings that are meant to educate the board, detailing a subject matter of interest or a review of critical risk-management issues and how to oversee them properly from the governing seat. Participation in board education sessions is also reported in annual filings.

Other Reporting and Disclosure Options

Instead of using the annual report as simply a cursory overview of the organization's great work and a thank-you to supporters, there are opportunities for nonprofits to use annual reporting as a way to demonstrate their focus on good governance and management. Board committees might report specifically on their work and key decisions made or recommended. The "management discussion and analysis" (MD&A), a common tool used in the for-profit sector's annual reporting, is a thorough overview of a company's financial situation and operations of the previous year and a forecast or preview of the upcoming year. Nonprofits, in contrast, provide a pithy report, perhaps from the chair and ED/CEO. Greater disclosure of what worked – and what did not – and more in-depth discussion of the organization's plans and anticipated challenges could provide more insight into the general complexities of nonprofits.

The People

In all boards, perhaps the most important factor for success or failure rests with the individual board members, as well as the CEO. This takes us into an exploration of the board member as an individual, and specifically the key roles of chair and the oversight of the CEO (as well as the support a CEO should provide to the board).

The Chair

The role of chair can be a difficult one to understand. The chair is not the boss: there is no single boss of an ED or CEO. In a *Harvard Business Review* article, Shekshnia (2018:105) notes that good chairs (of both nonprofit and for-profit boards) "understand that the board is the collective 'boss' of the CEO and that the task of the chair is to make sure the board provides the goals, resources, rules, and accountability the CEO needs."

Chairs are usually elected because of the respect they have earned from their peers, often because they are persuasive and knowledgeable. Once in the chair role, however, they are expected to put aside their own capacity to influence opinions and become a facilitator more than an influencer. Strong interpersonal skills are a hallmark of effective chairs (Harrison et al., 2014). Their primary role is to ensure that board meetings run smoothly and that varying opinions are heard and explored properly at the board table. When using their own voice, they must recognize the significant impact, heft, and power that often comes with the position of chair. It is not a role to be taken lightly, as once a public statement is made by the chair, it is usually considered to be the de facto position of the organization.

When working with the CEO, a board chair must recognize that this relationship is more one of colleagues than as a boss to a subordinate. Only by authority of the entire board can the chair provide formal feedback or discipline or make any changes to the employment of the senior staff person. A strong chair works with the CEO to lead the organization forward. The best Canadian analogy would be that of the governor general to the prime minister: the chair fulfils the role of head of state and guides without necessarily leading, while the CEO handles the executive functions of the organization.

Accepting the responsibility of chair is not about prestige; it's about preparing for the hard work of balancing the facilitation and communication work with the board, and managing the relationship between the board and the ED or CEO.

The CEO as the Wizard of Oz

At the outset of this chapter, I noted that the challenge for rookie CEOs to understand their role in managing a board is perhaps one of their biggest unknowns. To conclude, we must acknowledge the very significant role that a CEO plays in making a board successful.

While CEOs are usually quick to be humble, declaring that they are not the most vital staff member or volunteer in the organization, much research into the actual functioning of CEOs confirms that it is the single-most important role in achieving the success (or failure) of an organization (Murray, 2006).

It also follows that good boards are usually backed by strong and competent executive leaders who know how to effectively report and be accountable to the board. They are skilled in recruiting and managing board members, and in staying on top of the issues related to governance.

A good board, then, is guided by a good CEO. Far be it from a board to "pay no attention to the man behind the curtain" (as the Wizard of Oz declared when he was discovered to be simply a powerless man managing the levers behind the scenes of his great, all-powerful charade). Rather, it is important to understand the dynamic between the CEO and the board (Cornforth & Macmillan 2016). Ultimately, the capacity of the CEO to manage the governance agenda, support the board and its committees, facilitate recruitment of new board members, and assist with other issues related to governance is far greater, and has greater influence on the success of the board, than the board's management of the CEO. Indeed, it makes a CEO a very capable wizard of board work from behind the curtain.

Managing the CEO

Of course, the fact that a good staff leader manages the board does not mean the board can divest itself of one its primary responsibilities: managing the ED or CEO. Unfortunately, too often the board's performance in key duties in this role – notably, hiring, performance management, and firing – are underwhelming. Boards seem to have become squeamish about these roles, partly because they often lack the direct experience with the CEO necessary to perform their tasks adequately. They are often hiring from a set of professionals who are not well known to them and come with a depth of expertise that is not the same as the director's own experiences. They may see the CEO only during board meetings, and so do not have a good sense of the CEO's day-to-day management skills, and thus are not ready to provide adequate feedback on a routine basis. And lastly, there is always squeamishness about deciding that the chief staff officer must go. This causes a great deal of commotion and chaos that the board is often unprepared to deal with. Unfortunately, as a result, there are some poorly performing CEOs in this sector who continue in their roles because boards simply pinch their noses and make do.

This is a situation that can and must be rectified. Managing the CEO, the board's sole employee, is a critical role of the board. One more promising practice that nonprofits are adapting from the private sector is the establishment of human resources and compensation committees, who dedicate their time to overseeing the essential professional management of the CEO, from evaluation to compensation and succession planning. If the HR and compensation committee can attract human resources professionals and seek advice that provides good comparisons and context for the nonprofit sector, these committees can be very valuable in ensuring that these vital duties are performed well.

Strengthening Governance

Ultimately, boards require care and watering, following guidelines and regulations carefully to ensure that the vital aspects of governance are in hand. The knowledge of board governance for anyone who reports to, or sits on, a board must begin with the essentials of due diligence and responsibilities. Once these are understood, the dynamics of board governance are an endlessly intriguing area of exploration. Board size, term limits, frequency and structure of meetings, approach to governance (policy, strategy, generative, et cetera) are dimensions of governance that can be endlessly refined, debated, and tested. There is no end to the myriad governance features and ideas that can be conceived of, piloted, and implemented.

As your research and knowledge of governance deepens, let it take you into wonderful new areas of exploration and understanding. And may all your board meetings end on time.

Meeting adjourned.

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Appendix A

Resources on Nonprofit Boards and Governance

A full discussion on governance could require several volumes. If you wish to dive deeper into the specific functioning of a nonprofit board, these resources are excellent:

Vic Murray's *Management of Nonprofit and Charitable Organizations in Canada* is an excellent resource, and specifically Chapter 3, "Managing the Governance Function," provides the essential roles of the board from four dimensions: the *what* being board roles and responsibilities, the *how* being board structure and operating procedures, the *who* being board composition, and the last being board culture and leadership.

There are also quite a number of freely available resources online, and these selected resources can assist anyone who is trying to build their knowledge of nonprofit governance:

- Muttart Foundation – board development workbooks: https://www.muttart.org/publications/board-development-workbooks/
- BoardSource – an American resource centre focused entirely on nonprofit governance. Some of the resources are free, while others are for purchase or require a membership: https://boardsource.org/
- Deloitte – *The Effective Not-for-Profit Board*: https://www2.deloitte.com/ca/en/pages/public-sector/articles/effective-not-for-profit-board.html
- Governing Good – a selection of articles and resources by Grant MacDonald, a retired professor: http://www.governinggood.ca/
- Simone Joyaux, an American nonprofit consultant, has several great articles on nonprofit governance topics: https://www.simonejoyaux.com/learning-center/free-download-library/board-development/

Biography

Owen Charters, BGC Canada

Owen Charters, CEO of BGC Canada, is a nonprofit executive and scholar of two and a half decades. The former chair of Imagine Canada and the Human Resources Council on the Nonprofit and Voluntary Sector, and faculty for the Social Sector Leadership MBA program at York University's Schulich School of Business, he's interested in continuing to push for a stronger nonprofit sector voice in Canadian policy, as well as better working conditions for sector employees.

Part II Navigating a Changing Environment

Governance and the Regulatory Environment

The Funding Environment

The People Environment: Leaders, Employees, and Volunteers

The Muttart Foundation

The Funding Environment

Chapter 9

Financing Canadian Charities: The Conditional Benefits of Revenue Diversification

Nathan J. Grasse, Carleton University
Marcus Lam, University of San Diego

Introduction

The long-term viability of Canada's nonprofit sector is deeply connected to the social, economic, and cultural well-being of Canadian communities, just as the well-being of Canadian communities depends on the health of the nonprofits that serve them. An important measure of a nonprofit's long-term viability is its financing structure or revenue "portfolio" (Kearns, 2008; Young, 2007). In general, Canadian charities are financed through a variety of revenue streams that include individual and corporate donations, government contracts, foundation grants, memberships, and a growing array of commercial activities. This funding is increasingly volatile, and many charities feel financially vulnerable in both the short- and long-term for good reason.

Many feel the pressures of stagnating levels of giving and volunteering, with philanthropy that may be increasingly concentrated in a smaller cadre of wealthy individuals (Lasby & Barr, 2018; Wallace, 2018; Rooney, 2019). Competition for fundraising has intensified, including the emergence of personal GoFundMe campaigns. Austerity measures taken by governments often result in a sudden loss of contracts, or at least increased rivalry for shrinking pies, while commercialization through social enterprise and new forms of social finance have not yet delivered the anticipated injection of large amounts of private capital.

The advice that is overwhelmingly given to nonprofits on how to survive and thrive in such an unstable financing environment is to diversify their sources of revenue. This strategy of diversifying funding makes intuitive sense and has become accepted wisdom among the multitude of consultants and financial advisors to nonprofits. It seems logical that overreliance on any one revenue stream is to be avoided because it can potentially expose nonprofits to financial instability if the funding source is reduced or eliminated. The academic research, however, does not unequivocally support diversification as *the* best strategy. A number of studies (Carroll & Stater, 2009; Hager, 2001; Keating, Fischer, Gordon, & Greenlee, 2005; Tuckman & Chang, 1991, 1994; Thomas & Trafford, 2013) have found positive relationships between funding diversity and financial stability. Yet recent studies point to evidence against revenue diversification and in support of revenue concentration, demonstrating that organizations with concentrated revenue portfolios have increased capacity (Faulk, 2010; Foster & Fine, 2007). Collectively, research suggests that the associations between revenue diversity and financial health may be more complex and uncertain than typically conceived. One reason is that many of the models used in existing research may be improperly specified, resulting in inconsistent findings about associations between revenue diversification and financial health. In addition, most of this work has been conducted in the US or Europe, and its relevance to Canada has not been tested.

This chapter takes a closer look at the revenue streams of Canada's charitable sector, with a view to better understanding the pros and cons of financial diversification. Do increasing degrees of diversification produce increasingly better financial health? For which kinds of charities does diversification seem to produce greater long-term viability? We first provide an overview of the mix of revenue sources for Canada's charitable sector and review the theories that aim to explain the benefits of diversified revenue portfolios. These theories and the ways in which they have been applied have significant limitations, however. In general, existing research has been limited to *linear* associations between revenue diversity and organizations' financial conditions; that is, they assume that as revenue diversity increases, there will be a proportionate effect on financial stability and health. In practice, however, this relationship may be nonlinear, and, in fact, diversity may exhibit diminishing returns on financial health at a certain point. In this chapter, we argue for a more sophisticated approach to understanding the effects of funding diversification and test the potential for Canadian charities of a nonlinear relationship of diversity and financial health.

Charity Financing in Canada: Mixed Portfolios

An examination of the revenue structure of the Canadian charitable and nonprofit sector illustrates the multiple revenue streams on which organizations may rely, while comparing subsectors reveals the heterogeneity of revenue portfolios in the sector. As noted in other chapters, a clarification is required on this "sector"; specifically, while we refer to nonprofits and charities in the literature review, the analysis below is limited to registered charities (please see the "Data" section below for a description of the data sources and organizations used for this analysis).

By all measures, the charitable sector is growing – at times faster than Canada's overall economy (Emmett, 2018). Between 1997 and 2007, for instance, the sector grew by nearly 100%, driven largely by demand for services due to an aging population, concern for specific issues such as environmental protection, and changing social and cultural norms (Emmett, 2018).

Social services such as temporary shelters, youth services and welfare, family services, support for disabled persons, and material assistance (food banks, clothing) make up nearly a quarter of the total share of the charitable and nonprofit sector GDP at 21.4% (Emmett, 2016). Development and housing organizations make up the next largest share at 17.3%. This is followed by "culture and recreation organizations" (10%) and "education and research," also at 10%. Religion-focused organizations make up about 8%, and "business, professional associations and unions; philanthropic intermediaries and volunteerism promotion; health; law, advocacy and politics; environment; international; and others" make up the rest (Emmett, 2016). The fastest-growing subsector of organizations between 2000 and 2008 was those classified as "other," at 10% growth, followed by "philanthropic intermediaries" at 9%. Finally, law, advocacy and politics, and international organizations also showed a growth rate of slightly over 8% (Emmett, 2016).

Overall, Canadian nonprofits generate 51% of revenue from government sources, followed by 39% from fees for service, and 9% from philanthropic sources (Hall et al., 2005). When excluding hospitals, universities, and colleges, these revenue percentages shift slightly: 39% from government sources, 48% from fees, and 12% from philanthropy. The revenue composition of nonprofits and charities in Canada is, on average, similar to other "welfare partnership" countries such as France, the Netherlands, and Belgium, whose nonprofit sector revenue is, on average, dominated by government sources: 68% government, 22% fees, and 13% philanthropy (Salamon, Wojciech Sokolowski, Haddock, & Tice, 2013). In contrast, Australia's nonprofit sector, an "Anglo-Saxon" regime model, has revenue portfolios that are, on average, less reliant on government sources: 33% government, 51% from fees, and 11% philanthropy (Salamon et al., 2013).

When we examine a subset of Canadian nonprofits and charities (Figure 1), "receipted gifts" (donations) make up about 45% of average revenue structure. Revenue from provincial governments is the next largest at about 10%. When examining specific subsectors, the revenue portfolio changes dramatically. Social welfare organizations, for example, generate about 40% of their revenue from provincial government, followed by funding from the sale of goods and services (Figure 2). Revenue for education organizations is less concentrated, with funds from provincial government making up about 30%, municipal government making up about 25%, and receipted gifts making up nearly 20% (Figure 3). Finally, benefits to community organizations such as libraries and museums are also more diverse revenue portfolios compared to welfare organizations. These charities generate 25% of revenue from receipted gifts, followed by 15% from municipal government, 15% from federal government, and about 10% from provincial government (Figure 4).

Figure 1. Canadian Charities

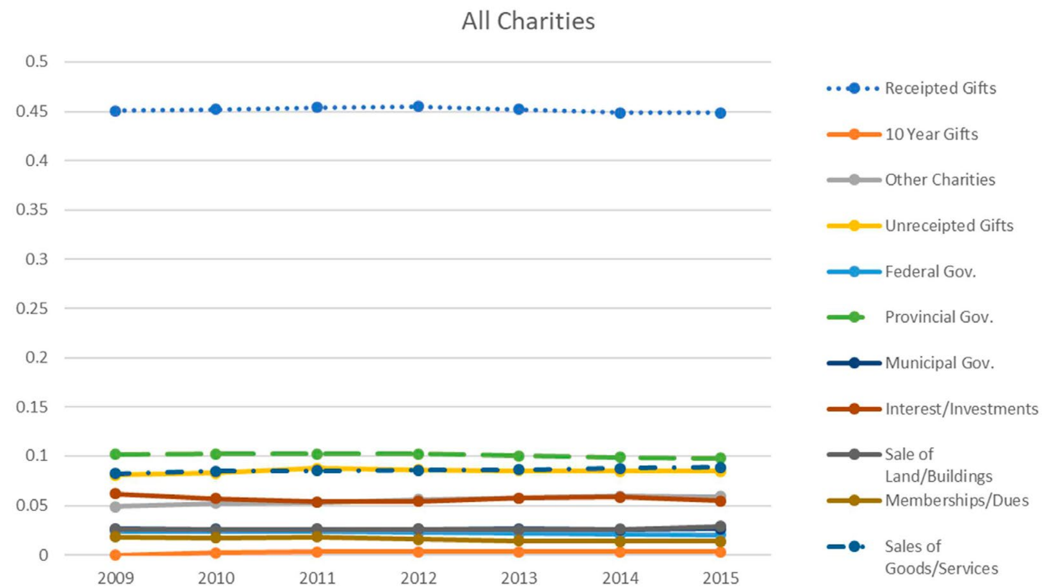


Figure 2. Welfare Organizations

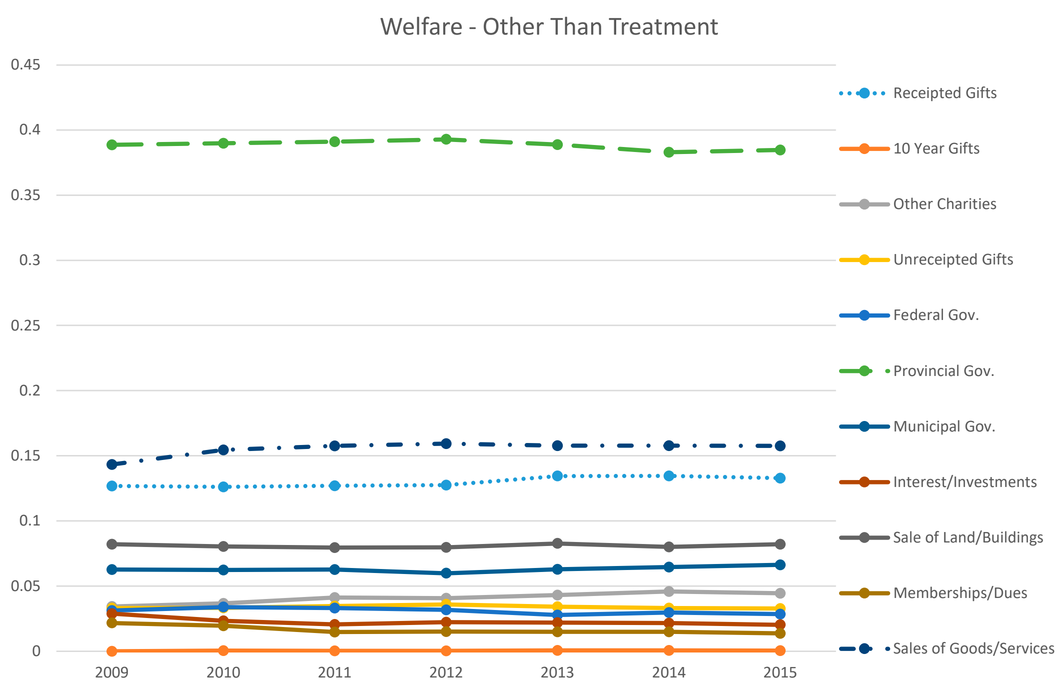


Figure 3. Education

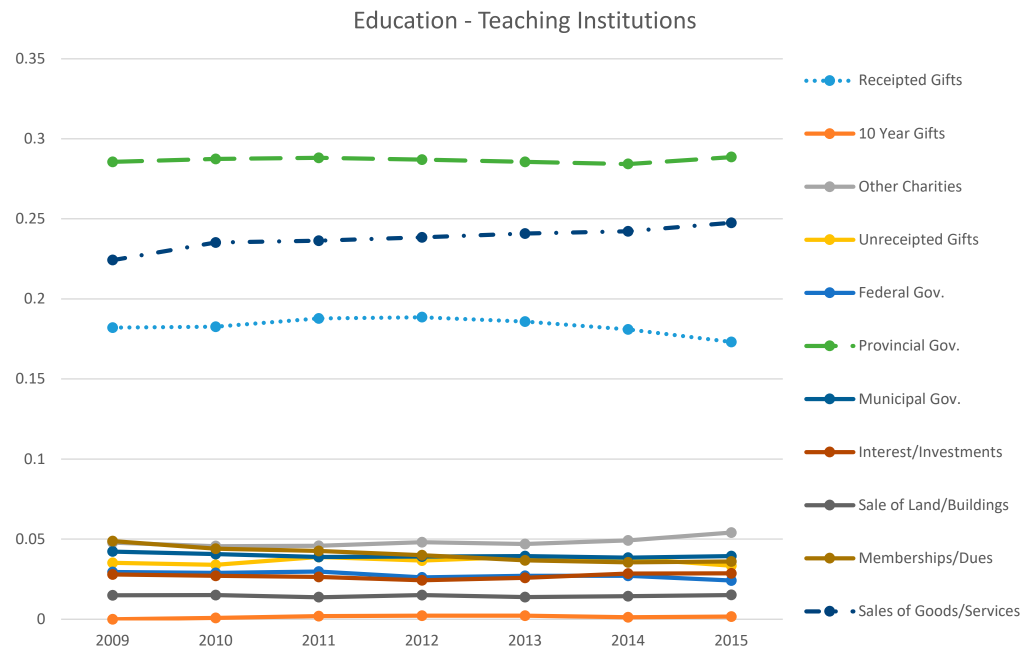
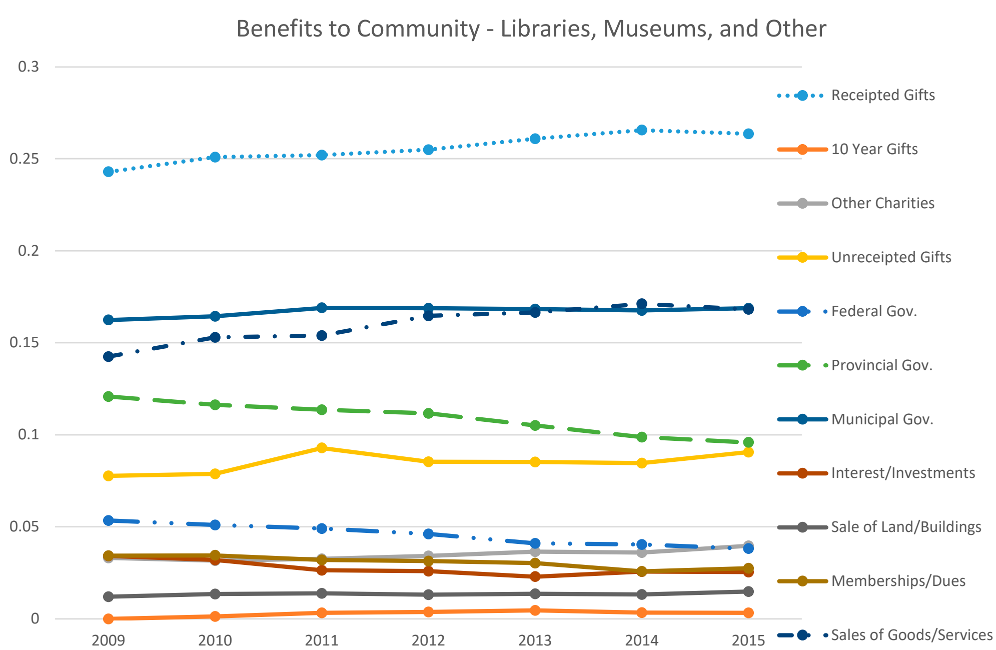


Figure 4. Libraries and Museums



The financing environment has changed significantly in recent years, becoming more competitive in a variety of ways (Scott & Pike, 2005). Arguably the most pressing and universal challenge is determining the appropriate number of revenue streams, and their amounts, to fund programs, operations, and long-term sustainability. This task is complicated by the management issues associated with being a nonprofit or charitable organization. First, charities must earn revenue before they can provide services, and often provide services to clients regardless of clients' ability to pay. This is the opposite of the traditional business model, in which revenue is earned through service provision and services are denied to clients who cannot pay. As such, traditional business models often build in a profit on top of production costs that is paid by the customer. Charities, on the other hand, and in particular those that serve vulnerable communities, provide services below production cost and thus require fundraising to cover the gap in costs. As such, charities are usually financed with a variety of revenue streams, which makes their financial management particularly challenging. In addition, charities serve multiple stakeholders, and it is unclear who their clients are – whether they are the direct recipients of the service and their families or the funders who require outcome measures that may not measure anything meaningful. With this distinctive set of circumstances and challenges, how do we determine the most successful strategies for achieving financial health and long-term viability? The next section provides an overview of some of these theories and their limitations.

Theories of Charity Financing: Explaining How to Achieve Financial Health

A number of theories seek to explain the implications of charitable revenue structures, which differ based on assumptions about the motivations that drive charities' behaviours. We divide these into three groups: 1) theories drawn from economics, which assume that charities are either risk-averse or utility maximizers (Kingma, 1993; Kearns, 2008); 2) an institutional approach, which assumes that charities pursue specific income streams that confer legitimacy in their communities or allow them to leverage a relationship with a funder (Kearns, 2008); and 3) Young's (2007) "benefits theory," which focuses on the various benefits provided by the organization and is more interdisciplinary in its assumptions.

Theories that assume behaviour based on risk aversion argue that highly concentrated revenue portfolios are vulnerable to disruptions to revenue acquisition caused by exogenous shocks. That is, an organization reliant on a single or small number of revenue sources is placed at higher risk because it will suffer if these sources withdraw their funding. The rationale for this argument is that organizations should have more than one revenue source and that, ideally, all income sources should be independent of one another. Diversifying the overall portfolio among various income sources will reduce risk proportional to the number of sources (Markowitz, 1952; Kingma, 1993). Other economic theories of charitable behaviour view charities as akin to rational, utility-maximizing firms. Decisions about revenue portfolios are based on how each revenue stream will maximize total output or maximize expected return with the minimal amount of volatility or risk (Kearns, 2008).

Alternatively, theories based on institutional approaches argue that charities choose revenue streams "in order to maximize their perceived importance, centrality, and legitimacy in the community" (Kearns, 2008: 298). This legitimacy argument implies that charities are highly sensitive to the demands of various stakeholders, particularly funders, and thus base revenue decisions on how they may strengthen relationships with funders (Kearns, 2008).

A third, more interdisciplinary approach is the benefits theory formulated by Dennis Young (2007), which focuses on the nonprofit's mission and its intended beneficiaries. The benefits implied by the organization's mission should drive the types of revenues pursued and received (Young, 2007; Fischer, Wilsker, & Young, 2011). The four main types of possible benefits and beneficiaries are:

1. private benefits conferred to individuals (i.e., students, patients, etc.);
2. group benefits conferred to a specific group of individuals (i.e., refugees, senior citizens, etc.);
3. public benefits to society at large (i.e., environmental advocacy, national security, etc.); and
4. trade benefits conferred to specific individuals or companies collaborating with the charity on a quid pro quo basis.

In short, each program offered by a charity has a primary, secondary, and tertiary set of beneficiaries, each of which implies a specific sort of revenue stream. Private benefits are ideally funded by earned income or fees; group benefits are funded by donations and philanthropic foundations; public benefits are funded by the government; and trade benefits can exchange relationships between individuals as volunteers or other organizations. For example, educational institutions confer primarily private benefits to individual students but also offer secondary group benefits to alumni and families and tertiary public benefits to the community at large. They can also offer trade benefits to companies through exposure and marketing in exchange for free supplies (i.e., athletic gear, scientific equipment, etc.). Thus, an educational institution's revenue portfolio will consist primarily of student tuition (fees); followed by donations from alumni, families, or other groups who benefit from maintaining the school's reputation; next are government grants for programs that benefit the community or public at large; and finally, a smaller portion of its revenue portfolio may consist of in-kind donations from other organizations or volunteers. Once this composite revenue portfolio is determined, charities must then consider the feasibility of each revenue source, their interaction with each other, trade-offs between mission accomplishment and financial sustainability, and risk. Charities may go through a decision-making process with each of their programs or services and come up with a weighted revenue portfolio (Young, 2007).

Among these differing theories, only Young's benefits theory offers guidance as to the relative proportion of revenue sources, but it remains to be tested, and uncertainty remains as to the most efficient revenue composition for long-term financial health.[1] There are disadvantages to a highly diversified revenue portfolio, one of which is the high fundraising and administrative costs associated with it, or what Young refers to as the "feasibility issue."

While both theory and practice suggest that greater revenue diversification may be beneficial to organizational financial health and sustainability, the body of evidence for this positive relationship is mixed. A number of studies support a positive relationship between revenue diversity and financial health (Chabotar, 1989; Tuckman & Chang, 1991, 1994; Carroll & Stater, 2009; Tevel, Katz, & Brock, 2015), while others find that a concentration of revenues is associated with other benefits (Foster & Fine, 2007; Chikoto & Neely, 2014; Faulk, 2010).

One explanation for conflicting findings among numerous studies is that scholars use different measures of nonprofit financial health. A number of studies, for example, focus on the ability to grow revenues as a measure of financial health (Foster & Fine, 2007; Chikoto & Neely, 2014; Faulk, 2010). Other studies operationalize organizations' financial condition with a measure of the stability of their funding sources (e.g., Carroll & Stater, 2009; Hager, 2001; Keating, Fischer, Gordon, & Greenlee, 2005; Thomas & Trafford, 2013). Prentice, however, using a single financial health construct, finds no relation between this construct and revenue diversity (2016). Thus, the varied findings, as well as the differing financial health measures, suggest that optimal benefits cannot be achieved with either high concentration or high diversification. Furthermore, Shea and Wang find that revenue concentration may be difficult for certain charities (2015), raising questions about the practicality of diversification efforts for these organizations.

In summary, the current body of evidence indicates that the relationship between revenue diversification and financial health is nuanced and unlikely to have uniformly positive or negative associations with financial health. In this chapter, we argue that the relationship between revenue diversification and long-term financial health is likely to be nonlinear. Specifically, we contend that, at some point, revenue diversification may have diminishing returns because of administrative costs associated with a greater and more diverse set of revenue streams; mission drift, due to "chasing the money" or funding that is only tangentially related to the organization's core mission; or "crowd-out" effects due to revenue stream interactions. The models presented in this chapter offer a preliminary test of these ideas and will make a valuable contribution to the revenue-diversification debate by using Canadian data to test for curvilinear associations between revenue diversity and multiple indicators of financial health.

Testing Revenue Diversification and Financial Health

Measuring Diversification

In order to test associations between diversification and financial health, we rely on a common measure of revenue diversification known as the Herfindahl-Hirschman Index (HHI). The HHI has frequently been used as a measure of revenue diversity (Yan, Denison, & Butler, 2009; Carroll & Stater, 2009), while its inverse has been used as a measure of revenue concentration (Chikoto & Neely, 2014). In this study, we use 12 revenue categories from the T3010 form (the mandatory annual charitable tax return filed by all charities) to calculate the diversity index.[2]

Measuring Financial Health

We test the association of revenue diversification with three variables representing charities' financial health. The first is a savings indicator, which identifies whether the organization can add to its net assets, calculated as total revenue less expenses divided by total expenses. Positive values indicate additions to the fund balance, while negative values reflect a shrinking fund balance. We do not suggest that charities do or should attempt to maximize this fund balance, as eventually excess revenues should flow into operations; however, we believe this measure can measure short-term financial health.

Two long-term measures of financial health focus on revenue growth and volatility. The first, the five-year growth rate, examines the rate of change in total revenue over a five-year period. The second, the standard deviation of expenses, measures the variability of the organization's prior five years of total expenses (excluding depreciation) and reflects the volatility (risk) of the organization.

Independent Variables

A number of independent variables identify the associations between revenue diversification and other essential elements of charitable organizations, on the one hand, and our measures of financial health, on the other. Specifically, we could expect that diversification might be influenced by organizational size (i.e. total expenses, revenue growth, or total revenues, depending on the specific model) and organizational capacity (i.e. administrative and fundraising expenses). The administration expense ratio is included to account for human capital, which might influence financial health, while fundraising expenses control for organizations' capacity to raise revenues by expanding their fundraising.

The Data

This study relies on data from the charitable tax return (T3010) filed by all registered charities with the Charities Directorate of the Canadian Revenue Agency – and thus the analysis, discussion, and implications are for the population of charities rather than the broader nonprofit sector. Specifically, data is drawn from about 84,000 of Canada's approximately 86,000 charities, as we include only charities with more than $100,000 in total revenue to ensure that financial data is comparable.[3] The analysis uses financial data from 2009 to 2015 for the panel models used for our short-term dependent variable and data from 2015 for our cross-sectional long-term models. Our analyses are reported in a simplified format, with more specific detail about the measures and statistics available upon request.

Findings

We first model the association between revenue diversification and a short-term measure of financial health.[4] Second, we model long-term effects using robust regressions, which reduces the influence of extreme observations and ensures more conservative estimates of the effects of the independent variable (diversification measures) on the dependent variable of financial health (Li, 1985).

When we examine the results of the models for all Canadian charities (Table 1), we find evidence for a nonlinear effect in our short-term model and in one of our long-term indicators – the standard deviation of expenses. The model for the savings indicator demonstrates that short-term growth diminishes and is dramatically reduced for organizations with high levels of diversification. While this function is nonlinear, the effect is consistent for most of the range of revenue diversification (Panel 2).[5] When examining risk, we see that diversification is associated with reduced volatility at the outset but that the effect is quickly overwhelmed, indicating that only that initial movement away from absolute concentration could be likely to reduce variation in revenues. Additional diversity is associated with greatly increased volatility.

Table 1. Revenue Diversification and Financial Health – All Charities (over $100K in revenues)

	Short-term Models	Long-term Models	
	Savings Indicator (log)	Five Year Growth	Standard Deviation of Expenses (Minus Depreciation)
	Coefficient P>|t|	Coefficient P>|t|	Coefficient P>|t|
RevDiv	-0.22 ***	0.00	-33926.00 ***
	0.000	0.903	0.000
$RevDiv^2$	0.07 **	0.00	54961.52 ***
	0.005	0.953	0.000
TotalExp/TotRev	0.00 ***	0.00	0.08 ***
	0.000	0.264	0.000
AdminExp	0.01 ***	0.00	0.00 ***
	0.000	0.654	0.000
FRExp	0.00 ***	0.00	0.00 ***
	0.000	0.196	0.000
n	**277,419**	**38,029**	**38,620**
groups	**51,557**		
Prob > F	0.000	0.000	0.000

Panel 2. Revenue Diversification and Financial Indicators – All Charities

Figure 5. The Savings Indicator

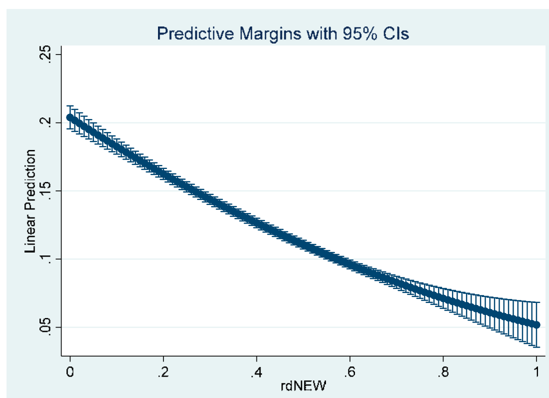
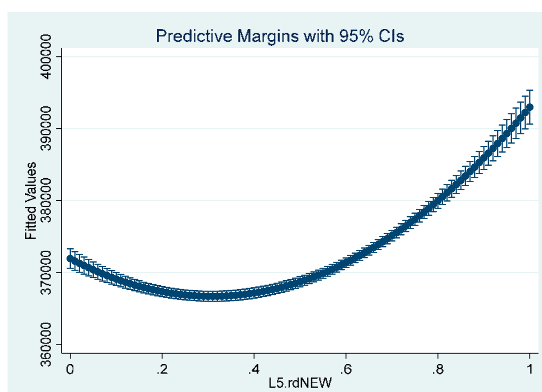


Figure 6. Standard Deviation of Expenses



In combination, these results suggest that a relatively concentrated portfolio could lead to both short-term and long-term stability. Altogether, considering the insignificance of revenue diversification in our model of long-term growth, we find little evidence that maximizing diversification is optimal for Canadian charities. In fact, organizations with relatively concentrated revenue portfolios (HHI, near .4) experience both short-term growth and low expense volatility. While this result is far from definitive, it provides some support for the notion that charities should diversify with caution, avoiding the risk of absolute concentration and pursuing additional revenue sources strategically. To take a deeper dive, we examine three subsectors in more detail: welfare organizations providing care other than treatment, education institutions, and libraries and museums.

When we consider only welfare organizations (Table 2), there is a consistent pattern of results: a high degree of revenue diversification is associated with reduced short-term net asset growth and increased expense volatility. In fact, the least desirable financial conditions are associated with very high degrees of revenue diversification (Panel 3).

Table 2. Revenue Diversification and Financial Health – Welfare Organizations

	Short-term Models		Long-term Models			
	Savings Indicator		Five Year Growth		Standard Deviation of Expenses (Minus Depreciation)	
	Coefficient P>|t|		Coefficient P>|t|		Coefficient P>|t|	
RevDiv	-0.42	***	0.05		-138752.40	**
	0.000		0.000		0.006	
RevDiv^2	0.42	***	-0.10		140621.80	**
	0.000		0.512		0.011	
TotalExp	0.00	**	0.00		0.07	***
	0.001		0.127		0.000	
AdminExp	0.01	***	0.00		0.00	***
	0.000		0.850		0.000	
FRExp	0.00	*	0.00		0.00	***
	0.038		0.910		0.000	
n	**15,593**		**2,137**		**2,164**	
groups	**2,584**					
Prob > F	0.000		0.000		0.000	

Figure 7. The Savings Indicator

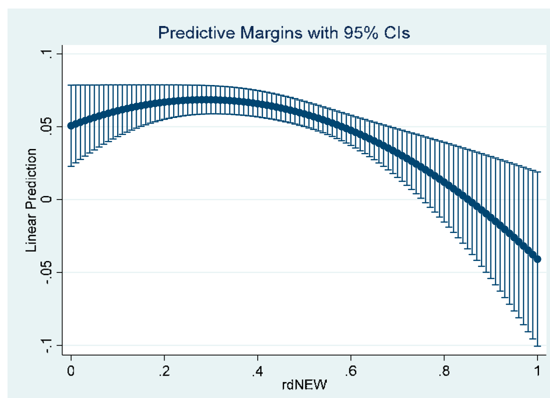
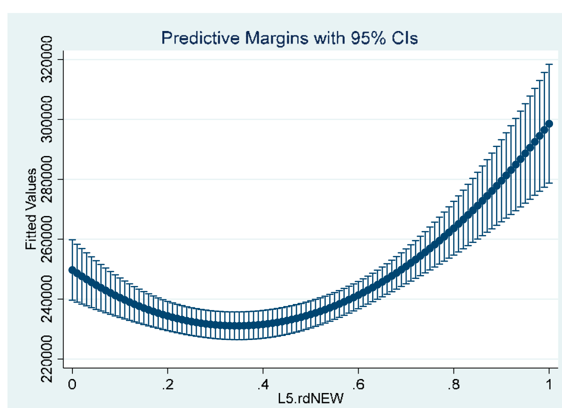


Figure 8. Standard Deviation of Expenses



Panel 3. Revenue Diversification and Financial Indicators – Welfare Organizations

Charities in the education subsector demonstrate a slightly different relationship between revenue diversification and revenue growth but have consistent results for expense volatility (Table 3 and Panel 4). Net growth of assets is associated with both highly diversified and concentrated revenue structures relative to more balanced revenue structures. Revenue diversification, as compared to concentration, slightly increases expense volatility when moving away from the midpoint of our measure of diversification.

Libraries and museums provide no evidence that diversification can be expected to lead to wide-ranging improvements to an organization's financial condition (Table 4 and Panel 5). In the case of short-term growth, diversified portfolios are associated with lower values of the savings indicator than are highly concentrated portfolios. Long-term growth is positively associated with initial diversification but is diminished at higher levels of diversification. Expense volatility also increases with extreme diversification, suggesting that the degree of diversification should be considered when attempting to reduce risk.

Table 3. Revenue Diversification and Financial Health – Educational Organizations

	Short-term Models	Long-term Models	
	Savings Indicator	Five Year Growth	Standard Deviation of Expenses (Minus Depreciation)
	Coefficient P>|t|	Coefficient P>|t|	Coefficient P>|t|
RevDiv	-0.42 ***	0.05	-138752.40 **
	0.000	0.729	0.006
$RevDiv^2$	0.42 ***	-0.10	140621.80 **
	0.000	0.512	0.011
TotalExp	0.00 **	0.00	0.07 ***
	0.001	0.127	0.000
AdminExp	0.01 ***	0.00	0.00 ***
	0.000	0.850	0.000
FRExp	0.00 *	0.00	0.00 ***
	0.038	0.910	0.000
n	**15,593**	**2,137**	**2,164**
groups	**2,584**		
Prob > F	0.000	0.000	0.000

Panel 4. Revenue Diversification and Financial Indicators – Educational Organizations

Figure 8. The Savings Indicator

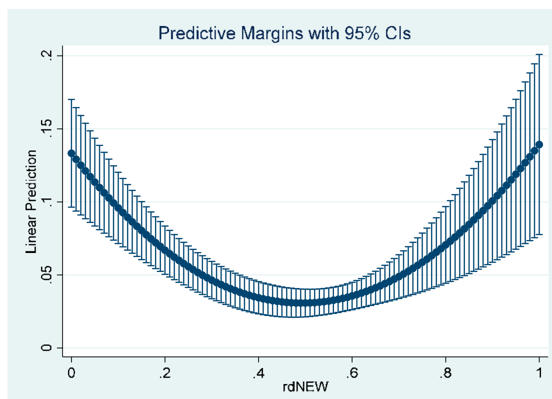


Figure 9. Standard Deviation of Expenses

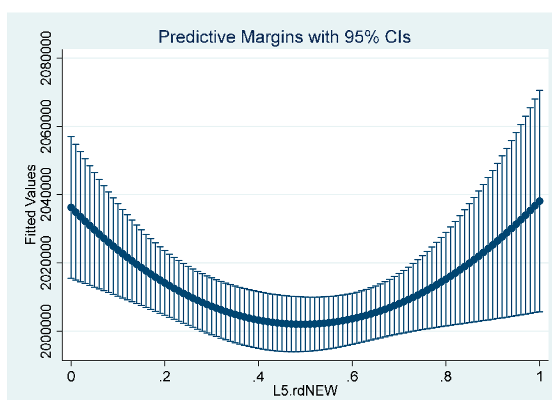


Table 4. Revenue Diversification and Financial Health – Libraries and Museums

	Short-term Models	Long-term Models	
	Savings Indicator	Five Year Growth	Standard Deviation of Expenses (Minus Depreciation)
	Coefficient P>|t|	Coefficient P>|t|	Coefficient P>|t|
RevDiv	-0.53 ***	0.55 **	-58956.53
	0.000	0.025	0.059
$RevDiv^2$	0.15	-0.55 **	57181.43
	0.285	0.020	0.058
TotalExp	0.00 ***	0.00	0.08 ***
	0.000	0.625	0.000
AdminExp	0.19 ***	0.00	0.00 ***
	0.000	0.261	0.000
FRExp	0.54 ***	0.00	0.01 *
	0.000	0.302	0.043
n	**6,012**	**815**	**826**
groups	**1,140**		
Prob > F	0.000	0.000	0.000

Panel 5. Revenue Diversification and Financial Indicators – Libraries and Museums

Figure 11. The Savings Indicator

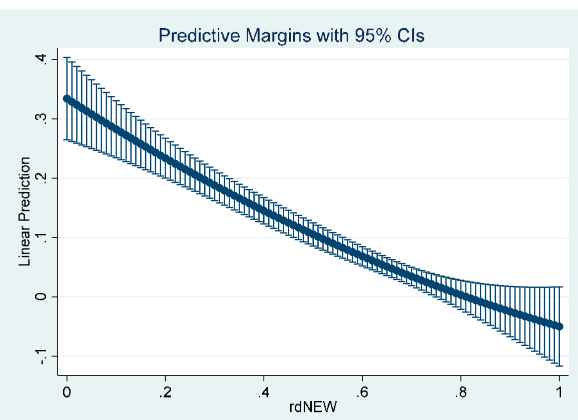
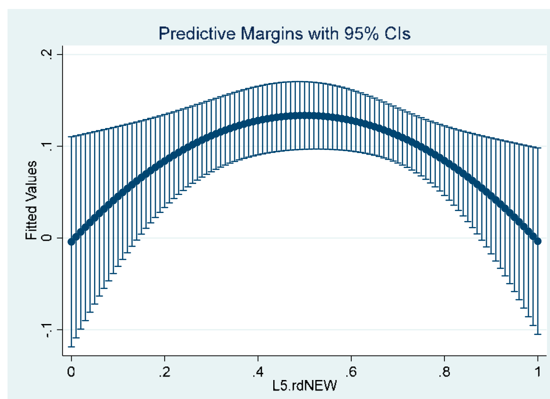


Figure 12. Standard Deviation of Expenses



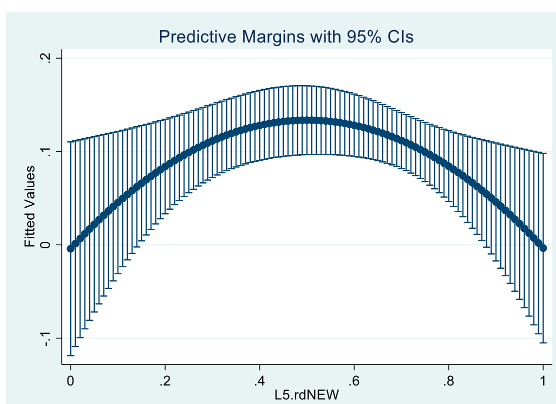


Figure 13. Standard Deviation of Expenses

Discussion: Diversification Reconsidered

While this analysis can only provide associations, not determine causation, the models provide important evidence regarding revenue diversification of Canadian charities. Organizations hoping to maximize short- and long-term growth while minimizing expense volatility should not expect revenue diversification to provide these benefits. While we cannot speak to causal relationships, we can speak to the absence of evidence of consistently linear and positive associations between funding diversification and these select measures of financial health. Our evidence shows that financial health is not consistently highest at high levels of diversification; on the contrary, the greatest expense volatility and less-than-optimal short-term growth is associated with extreme diversification. When considering these widely accepted measures of financial health, we find no evidence that extreme diversification is associated with an improved financial condition. Initial movement away from absolute concentration, however, is likely to be associated with reduced risk. As is suggested by theory, relying almost exclusively on one revenue source is consistently associated with our measure of risk.

Conclusion

This study has examined the associations between revenue diversification and three measures of financial health of Canadian charities with more than $100,000 in total revenue, taking a deeper look at charities working in the areas of welfare, education, and community services to assess any differences by subsector.

Ultimately, we believe the models suggest that absolute expectations about the potential impacts of revenue diversification should be tempered. Most critically, in the Canadian context, we find little evidence that maximizing diversification will benefit the short- or long-term financial health of organizations. This suggests that educators, consultants, managers, and board members should moderate any language and thinking on the potential effects of diversification. While it seems likely that charities should avoid absolute concentration, the benefits of diversifying are also likely to be conditional. This may be due to the trade-offs between short-term return and risk, the potential for diminishing returns, and tipping points at which diversification becomes inefficient. Although our analyses do not attempt to explain the reasons for our findings, certainly the inherent complexity of charitable revenue management may make diversification costly, or the competition for these revenues may make their pursuit inefficient.

From a scholarly perspective, Canadian data suggests that modelling revenue diversification without accounting for nonlinearity may be problematic. At the minimum, any linear model that identifies a positive or negative association with financial indicators should test for a nonlinear association with a squared term. While alternative approaches to modelling exist, this change may reveal misspecification.

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Notes

[1] Fischer, Wilsker, and Young (2011) offers a preliminary test of Young's benefits model.

[2] We calculate diversity using the formula: RD = $(1- \sum_{i=1}^{n} Ri^2)/[(n-1)/n)]$

[3] This includes more than 50,000 organizations required to complete Schedule 6, with more detailed financial information. The data set was cleaned by removing observations that include any of the following: revenue categories that exceed the variable for total revenues; expense categories that exceed total expenses, either negative revenues or expenses; or negative or zero end-of-year assets (Bowman, Tuckman, & Young, 2012).

[4] These fixed-effects models are based on a Hausman test, assessing whether random effects are orthogonal to the regressors. The results suggest that the fixed-effects models are more appropriate due to the potential correlation between observed predictors and time-invariant unobserved predictors (Allison, 2009; Hsaio, 2014; Rothman, et al., 2008). In these models, the coefficient represents the effect of the unit of analysis within the panel, accounting for unobserved heterogeneity that is correlated with our independent variables and allowing us to assess within-unit associations.

[5] This can be demonstrated by calculating and graphing the marginal effects (see Figures 5 and 6), which highlight very different patterns of association between these two indicators.

Biography

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Nathan J. Grasse focuses on the governance and financial management of public-serving organizations. This includes the study of revenue structures, the potential conditioning effects of organizational and environmental factors, and the implications of strategic choices on financial health and other organizational outcomes.

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The Funding Environment

Chapter 10

Giving and Fundraising Trends

Sharilyn Hale
Watermark Philanthropic Counsel

Giving and fundraising are two sides of the philanthropic coin. For both, it is a time of upheaval and tremendous social change driven by demographic, economic, legislative, and technological factors. Taking their interdependence as a starting point, this chapter assesses the implications of change for both giving and fundraising in Canada, considering different approaches to giving, new ways of raising funds, and new constituents participating in philanthropy. In some cases, these changes are creating challenges and uncertainty, while in others they are unearthing new potential. The very nature and pace of these changes impact charities differently and disproportionately, based on their mission, capacity, and profile, at a time when donors have increased expectations of charities and want them to do more with less (AFP Foundation for Philanthropy Canada & Ipsos, 2017). A major concern is that giving in Canada has at best flat-lined in recent years, with fewer donors giving more, but many households with capacity are giving much less than they could. As the philanthropic landscape changes, fundraisers and fundraising practices are responding and evolving, and donors are being more proactive than ever. Given all this, there remains a significant need and opportunity to grow philanthropy in Canada. The chapter concludes with a series of unanswered questions, the answers to which will define the future resilience of Canada's philanthropic capacity.

Philanthropy, Fundraising, and Canadian Charities

Fundraising has been described by pioneering fundraiser and author Hank Rosso as the "servant of philanthropy," acting as an enabler for the expression and practice of giving (Temple, Seiler, & Aldrich, 2011). Nearly all charities in Canada rely on fundraising to some degree to enable philanthropy. In 2014, fundraising generated more than $14 billion in tax-receipted and non-receipted gifts, representing 0.77% of GDP, placing Canada behind only the US and New Zealand (Lasby & Barr, 2018). Fundraising – also referred to as development, fund development, advancement, or resource mobilization – encompasses various methods and strategies. Indeed, from the volunteer-led charity barbecue for a small community youth centre to a sophisticated major gift program crafted by professionals within a large institution, fundraising in Canada unleashes philanthropy in support of charitable causes that strengthen the very fabric of our nation.

When making sector-wide comparisons of fundraising strategies, performance, and costs, we need to consider the contexts of fundraising mix, organizational scale, and disparities due to geography (urban/rural), mission attractiveness, and impact area (local/national/international). For example, the variation and mix of fundraising methods used by a charity depends in large part on the nature of their mission and constituent base, their size, and their staff/volunteer capacity and expertise. Returns on investment for fundraising methods tend to be higher for methods that result in fewer but larger gifts (such as major gift and legacy programs) and lower for labour-intensive methods such as events and product sales that result in large quantities of low-value gifts. Small and poorly resourced charities tend to engage more cost- and labour-intensive fundraising methods, often because of a lack of professional expertise, limited organizational capacity, and inability to make up-front investments. Ironically, these same charities tend to be the most reliant on fundraising overall, as they are less likely to receive government funding (Canada Helps, 2017)). Given that 80% of Canada's 85,000 charities have revenues of less than $500,000 and almost half have no paid staff (CRA, 2015–2016), it is not surprising that in 2016 the Canada Revenue Agency (CRA) reported that the top three most common fundraising methods were collection boxes or plates, fundraising events and galas, and product sales – among the most costly methods to raise funds (CRA, 2015–2016).

At the other end of the spectrum, medium to large organizations tend to have more comprehensive and professionalized fundraising strategies and benefit from scale and cost efficiencies. They are able to more easily attract and retain professional fundraisers, not to mention high-calibre volunteer leadership, which tends to be a precursor to major philanthropic investment. Such organizations have a definite fundraising advantage, where the top 1% of charitable organizations in Canada benefit from 60% of revenues (Emmett, 2016). This complexity and nuance serve as an important backdrop to the larger shifts influencing fundraising, many of which impact organizations in different ways, in some cases disproportionately.

Drivers of Change in Giving and Fundraising

Monumental shifts in Canada are transforming the landscape for philanthropy and fundraising, with four key drivers creating both challenges and opportunities. While not unique to Canada, these drivers require fundraisers and their organizations to think about fundraising more strategically, and to fundraise more skilfully, in order to flourish.

Demographics

The demographics of Canada are changing in ways that impact fundraising and giving. The Canadian population is aging. Because of lower fertility rates and higher life expectancy, one in two Canadians are 40.6 years of age or older; the median age in Canada has increased by 10 years since 1984, and this aging trajectory is expected to continue (Statistics Canada, 2017a). These mostly baby boomers (born between 1946 and 1964) and civics (born before 1945) account for almost 75% of total donations in Canada, and they tend to give significantly larger gifts to more charities than their Generation X (1965 to 1980) and Generation Y (1981 to 1995) counterparts (Lasby & Barr, 2018). This longevity and generosity makes older donors increasingly more important to charitable giving in Canada than younger donors.

In addition to population aging, there are significant changes to family structure and life. Fewer people are marrying, or do so later in life, and a decreasing number of families in Canada have children, about 57% in 2001 down to 51% in 2016. This matters because research indicates that married people give more to charity than single people, and couples with children traditionally give more than individuals or couples without children (Einolf, Curran, & Brown, 2018; The Giving Report, 2017). Certainly, the very definition of family has expanded to include same-sex marriages, lone-parent families, blended families, and multigenerational family units. While Canadian data specific on giving from these non-traditional families are limited, these changes have implications for how fundraisers approach individuals and families and the context from which donors make decisions about their giving.

Adding to these demographic shifts, Canada is also increasingly diverse. In 2017, about 22% of the population was foreign born, up from 15.6% in 1986 (Statistics Canada, 2017b). Increased immigration (in particular from Asian, African, and Middle Eastern countries), almost as much as birth rate, has helped grow Canada's population to more than 37 million. The scale of this diversity has led to the recognition of a kaleidoscope of philanthropic cultures, values, and practices in Canada.

The Economy

Canada has enjoyed strong economic performance, which has generated wealth for many individuals, businesses, and governments and helped to grow the nonprofit sector (Emmett, 2016). Slower economic growth is forecast for the long-term, which will have significant implications for the sector, and for fundraising and philanthropy. Intuitively, one might think that when people have more income, they give more, and when they have less, they give less. But there is more to the story. In spite of a robust economy, fundraising has barely recovered from the financial crisis of 2009. Considering inflation, overall giving has been stagnant since 2010 (CanadaHelps, 2017).

While the number of high-income families (those making more than $150,000 per year) has increased by 8% to 10%, and the number of these families who give has also increased, their average gift size has declined from 2006 to 2015 (Canada Helps, 2017). This tells us that at the highest income levels, giving has not kept pace with increased income. Fortunately, the number of low-income families in Canada has declined, but giving by these families has also declined, and the incomes of middle-income earners have flatlined. Clearly, not everyone has reaped the benefits of growth equally (Emmett, 2016).

Legislation and Regulation

Evolution in the legislative and regulatory environment has impacted fundraising dramatically. Whether one is in favour of or against the evolution we have witnessed, fundraising practices have evolved in response. Given what is happening in other jurisdictions such as the US, the UK, and Australia, where charities are also extensively regulated and charitable tax incentives are under scrutiny or being reduced, it is fair to say the fundraising community in Canada has a watchful eye on future legislative and regulatory directions.

In recent years, regulation that affects fundraising has been driven both by responses to specific and well-publicized charity abuses and by larger societal concerns about personal privacy and the use of technology. Canada's regulator, the Charities Directorate of the CRA, has demonstrated a greater commitment to enforcement among charities and has invested more resources in this area. In particular, the CRA has focused on charitable tax receipting in light of major tax-abuse schemes that used charitable organizations as a front. These scams have been estimated to total more than $7 billion in tax credits and deductions since 2006 (Alini, 2018). In 2009, CRA disseminated its initial version of its Fundraising Guidance. Presented as a clarification of charitable requirements already on the books, the Fundraising Guidance provided more explicit and useful direction on CRA's definition of fundraising, determinations on fundraising versus public education, and fundraising cost allocations. For the first time, CRA included a table about fundraising costs, suggesting that costs over 35% would generate a red flag for further inquiry (CRA, 2012). Concerned about the potential message to donors and, given there is no sector-wide agreement on how fundraising costs are calculated and a diversity of factors can influence fundraising costs, many in the sector pushed back, resulting in more nuanced language used on CRA's website about fundraising costs.

Tax incentives for charitable giving in Canada are among the most generous globally, and fundraising has had some great wins, including the elimination of capital gains on gifts of publicly traded securities in 2006. However, the 2015 proposal to eliminate capital gains on private shares, and the first-time donor's super credit introduced in 2014 (but claimed by very few) were both eliminated in the 2017 federal budget (Curry, 2015). While a wholesale clawback of charitable incentives is not anticipated in the short-term, seemingly small changes can have significant consequences, as we saw in the US under Trump's 2017 tax plan, which requires fewer people to itemize their tax returns, resulting in reduced incentives for charitable giving and a significant drop in giving in 2019 (Giving USA, 2019).

Relative to other types of legislation, charities have not been immune. For example, in 2004, the federal Personal Information Protection and Electronic Documents Act (PIPEDA) was introduced. While PIPEDA standards do not strictly apply to fundraising (as fundraising is not deemed to be “commercial activity”), the buying, selling, or renting of donor lists (a not uncommon fundraising practice) is defined as commercial activity, and charities require donor consent for this. Many charities have formally adopted and adhere to the 10 PIPEDA principles across their fundraising practices, but at the time of its introduction PIPEDA was a game-changer for many fundraisers accustomed to capturing names and contact information without consent so as to build donor files, and to sharing such information within and outside their organizations. Today, the fundraising profession has stepped up and integrated the standards into their practices and strategies. PIPEDA was followed by legislation in many provinces to safeguard personal health information, which primarily impacted fundraising practices in hospital foundations and community healthcare environments. Bill C-37, which in 2006 amended the Telecommunications Act with the intent of protecting people from unwanted telemarketing, constrained the use of fundraising through phone solicitations. In 2015, Canada’s Anti-Spam Legislation (CASL) came into effect, limiting the sending of commercial email messages without consent (although thankfully, fundraising appeals were exempt). Most recently, in 2018, the European Union introduced the General Data Protection Regulation (GDPR) to mandate heightened data-protection practices for all organizations that either operate or have stakeholders in the European Union, which many charities in Canada may.

This environment has made building and engaging a donor base much more challenging than it used to be, especially for new charities that do not benefit from long-established donor files. Yet it represents a new landscape of public expectations about transparency, privacy, and data protection to which fundraising has had to adapt and demonstrate leadership. While some argue these changes have inherently disadvantaged charities in securing the financial resources they so desperately need, others believe these changes are inevitable and encourage charities and fundraisers to be more respectful of donors and prospective donors and more strategic and targeted in their fundraising approaches. Either way, the sector has benefited from representative bodies such as Imagine Canada and the Association of Fundraising Professionals (AFP), among others, which have played active roles in helping to shape and inform regulation and legislation relative to the impact on fundraising so as to minimize unintended negative consequences for the nonprofit sector.

New Technologies and Social Media

The explosion of technology and social media has left no part of society untouched, with its rapid uptake across all segments of the population. Industries are emerging, transforming, or disappearing as technology reshapes ways of working, communicating, selling, and buying – changing the very nature of how business is done, as Marina Glogovac explores in her chapter. Widespread access to broadband and digital devices, the powerful role of social influencers, and the prolific generation of data raise important considerations for charities. Indeed, in fundraising, technology is changing how charities communicate, ask, report, and engage. For donors, technology is offering new avenues to research causes, give, track impact, and connect with like-minded givers. Without a significant embrace of these changes, as we explore in the next section, many charities will be left behind.

Giving Is Changing

Traditionally, "giving" in Canada has been understood as making a tax-receiptable donation to a registered charity for an intended purpose. Increasingly, a wider view of what "giving" and being "philanthropic" are has been evident with the embrace of additional ways to make a difference and advance social development and impact. From crowdfunding (to which contributions are usually not tax-receiptable and which often go directly to individuals rather than charities), to market vehicles such as impact investing and social finance, entrepreneurial incubation, and even remittances by diaspora communities – all are often categorized together as "doing good." Even cause-related marketing, corporate social responsibility (CSR), and environmental sustainability and governance (ESG) programs have grown as corporate charitable programs have diminished, broadening the understanding of corporate social commitments from simply making charitable donations. In all these cases, the focus is on a goal, and not the vehicle to achieve it.

On one hand, a diverse range of strategies and vehicles for people and companies to do good is important and heartening and recognizes that intractable issues need to be tackled from multiple directions. On the other hand, this shift raises a host of concerns about the future for charities, which rely on more traditional forms of giving. At a time when we have seen a decline in the overall number of philanthropic donors, we must ask whether these alternate ways of giving are supplanting traditional philanthropic giving. For instance, there is a sizable body of research indicating that "giving" by purchasing a product (coined "consumptive philanthropy"), for example, negatively impacts the likelihood of future donations to a charity (Eikenberry, 2009). The backbone of social capacity, charities in Canada need strong infrastructure and community support to deliver on their social mandates. Bridging the divide between traditional philanthropy and new forms of doing good will be a key challenge for the charitable sector in the years ahead.

Canadian Donors and the Concentration of Giving

Giving is easier than ever before. With the stroke of a key one can find a cause, make a gift, receive a tax receipt, and get an impact report in minutes. Platforms like CanadaHelps.org and Benevity.com offer donors value-added resources to support their philanthropic research and decision-making, and give charities the opportunity to connect with new donors online. Yet, astoundingly, the total number of donors has been declining for the past decade (Canada Helps, 2018; Lasby & Barr, 2018).

Why are fewer Canadians giving? A major reason is that they are not asked. A decreasing number of Canadians indicate they have been asked to give (53% in 2015, down from 70% in 2011) (AFP Foundation for Philanthropy Canada & Ipsos, 2015); a declining percentage say they are approached "too often" (AFP Foundation for Philanthropy Canada & Ipsos, 2017); and some groups (notably younger people under 35 and new Canadians) say they would give more if they were asked more (Lasby & Barr, 2018). Are charities just not asking enough or in the right ways? Are we seeing the effects of more restrictive fundraising legislation? Further, a full 60% of non-donors (up from 45% since 2013) said they just could not afford to donate, reflecting an overall decline in donations from lower- and middle-income Canadians (AFP Foundation for Philanthropy Canada & Ipsos, 2017; Canada Helps, 2017). Charities must reflect on the ways in which they are communicating with and soliciting current and prospective constituents, to ensure they offer robust opportunities to give and get involved. Fundraisers are well served to maintain organizational relationships with older donors and consider generational profiles to better understand the needs and interests of each generational group in order to engage more people with relevant, customized cultivation and fundraising strategies.

Fewer Donors, Giving More

What about those donors who are giving? In 2018, the AFP Foundation – Canada released *What Canadian Donors Want 2017*, which paints a picture of increasingly engaged and savvy donors (AFP Foundation for Philanthropy Canada & Ipsos, 2017). They are generous, giving an average of $772 per year, and plan to continue giving, and almost 70% give to two or more charities. A large majority are proactive in their giving, seek out information about the charities they wish to support, and are increasingly focused on effectiveness and impact. Trust in charities has increased 4% since 2013 (AFP Foundation for Philanthropy Canada & Ipsos, 2017), even as donors expect accountability and transparency and want to know how their giving has made a difference.

But are Canadians who are able and giving, giving "enough"? Imagine Canada's Personal Philanthropy Project (Benoit, 2017) explored this question by conducting interviews with donors who had given a minimum of $500 the previous year, had incomes of $200,000 or greater, and had investable assets of $500,000 or more. They found that the average annual giving of these donors was a modest $2,694. Canadians earning $50,000 or less donate, on average as a percentage of their income, 2.29% to charity. This contrasts with 2.02% for those earning $800,000 per year. It's only at the $900,000 and above income level that giving increases to 2.55% and greater. Strategies to encourage those with philanthropic capacity to give more are desperately needed.

There are some donors who give significantly more. We know that 10% of donors give 64% of total donations in Canada (Lasby & Barr, 2018), and multimillion-dollar gifts are increasingly common in major cities across Canada, such as the anonymous $100 million gift to the Centre for Addiction & Mental Health in Toronto in 2018. Driven by exponential growth in wealth mirrored in the US, this remarkable giving has led some to describe the current time as a "gilded age of philanthropy" (Callahan, 2017). As much as large-scale philanthropic investment is welcome, it demands some reflection within the sector. Gifts of this magnitude often come with clearly articulated, or at least silently acknowledged, donor expectations (English & Lidsky, 2015), beholding mostly large and complex institutions to a small subset of influencers. While good intentions are the norm, such power and influence are best managed in a context of good governance, appropriate oversight, and rigorous gift-acceptance policies to safeguard the independence and well-being of the charity.

Navigating the anticipated continuing concentration of giving in Canada will be a significant opportunity and challenge for fundraising and for charities of all sizes. Certainly, large and well-resourced institutions are well positioned to access and manage large philanthropic gifts, most commonly directed to hospital foundations and universities. It is the smaller organizations and those that tend to address causes such as human welfare or social justice that may find themselves on the sidelines of such transformational investment at a time when the needs they are tackling are great (Picco, 2016). It also raises a host of moral and ethical questions about power, influence, and social inequity – issues many charities tackle in their work to make Canada a more just, inclusive, and healthy place to live. Martin Luther King Jr. said, "Philanthropy is commendable, but it must not cause the philanthropist to overlook the circumstances of economic injustice which make philanthropy necessary" (King, 2010). As Simone Joyaux notes, fundraisers face a moral dilemma of advancing philanthropy while not being instruments of the status quo (Ahern & Joyaux, 2008). Indeed, charitable leaders, fundraisers, and philanthropists have a shared responsibility to acknowledge these complexities and navigate them with moral determination and courage.

Increasing Wealth and Philanthropy

Canadians in the highest income bracket have experienced greater gains since 1999 than any of the other income brackets. This increasing concentration of wealth raises myriad social and structural questions yet also represents an important opportunity for philanthropy in Canada. Who are the wealthy in Canada? The long-established wealth, traditionally generated in resource, agricultural, and transportation industries, has since flowed down and across multiple family generations and branches, many of which have long-established foundations and traditions of giving. The newer wealth has come from a generation of titans and entrepreneurs, mostly in technology and finance. They tend to be younger, some with young families, and may be new to traditional philanthropy with a desire to push the boundaries. Wealth is also coming to many Canadians in the often-referenced intergenerational wealth transfer. Indeed, it's estimated that an astounding $750 billion will be inherited by Canadians in the next 10 years (CIBC Economics, 2016).

Reflecting this growth in wealth, high-net-worth and ultra-high-net-worth individuals and families are looking for structures to best manage and focus their philanthropy. In fact, there are more new private foundations in Canada than ever before, with 35% of all Canadian foundations having been established since 2000 (Philanthropic Foundations Canada, 2017). Mirroring the US, there is also an increased use in Canada of donor-advised funds (DAFs), which collectively hold an estimated $3.2 billion in assets (Strategic Insight, 2018). While community foundations in Canada are home to about $1.7 billion of these assets, DAFs are often established by commercial financial institutions and wealth-management firms. Unlike private foundations, which require a range of public disclosures, DAFs offer greater privacy and flexibility to donors. While it is hoped these structures help philanthropists give thoughtfully and effectively, DAFs limit transparency on the degree and nature of charitable support in Canada, which is an issue of critical importance to a sector focused on the common good. This context of increased wealth and vehicles to support philanthropy also sees fundraisers increasingly dealing with intermediaries and gatekeepers: foundation staff, family offices, wealth managers, and philanthropy advisors. Navigating this new dance may increasingly redefine a profession focused on being the relational bridge between donor and charity.

This bifurcation of the economy has contributed to fundraisers increasingly focused on securing major gifts – donations at the top gift levels, sometimes at the expense of gaining new donors at the lower levels or nurturing mid-range gifts from those who may well have the capacity to give more over time. While a seemingly practical approach, it may not be the solution. First, fundraising theory is based on the classic fund-development pyramid, where a broad base of donors are engaged through annual fund strategies (events, direct response, etc.), and prospects are identified and cultivated up the pyramid for major and legacy gifts through strategies that increase their involvement and commitment to the organization (Wyman, 2011: 15). An imbalanced focus on one section of the pyramid causes long-term atrophy of a healthy fund-development program. We are seeing a decline in giving of middle-income donors who give mid-range gifts: is this shift in emphasis to the top of the pyramid a contributing factor? Second, smaller organizations are often challenged to attract major donors and philanthropic investments, and with Canada's wealth concentrated in large urban centres, charities outside these regions face the same barrier. What will be left for them?

The Changing Faces of Philanthropy

Long the domain of older white men – those who held much of Canada's wealth – philanthropy's profile is slowly, but extensively, changing. The new philanthropists' motivations for giving are not unlike traditional philanthropists', perhaps with more nuance and focus. For some of these new and non-traditional donors, philanthropy is a form of activism (Schnall, 2018). Through their giving they are demonstrating and modelling that everyone has a role to play, and they are opening up new philanthropic communities for the sector.

First, it's been noted that women philanthropists in Canada are coming into their own – financially and philanthropically. With wealth from greater participation in the work force (and in more senior positions) as well as from inheritance (from parents or partners), women have great capacity to give and are more likely to donate and to volunteer than men. A study on women's philanthropy in Canada commissioned by TD Bank (TD Bank & Investor Economics, 2017) found that, in total, women's incomes grew from $421 billion in 2010 to $489 billion in 2015 and that an estimated 350,000 women have the capacity and desire to make a major gift to charity. With particular interest in supporting causes focused on education, social justice, and vulnerable youth, women tend to view assets for giving as family assets, so they welcome the participation of other family members in decision-making (TD Bank & Investor Economics, 2014). They seek to build relationships with charities over the long-term and prioritize communication and due diligence before making gifts, so charities need to listen to them and give them opportunities to volunteer in leadership and demonstrate how their support matters.

Second, ethno-cultural donors and donors from diaspora communities are increasing, as Canada's ethno-cultural makeup continues to evolve. While data in Canada on giving broken down by race or cultural group is limited, engaging non-white high-net-worth and ultra-high-net-worth business leaders and entrepreneurs has become the holy grail for many institutions, particularly large ones that are able to offer the profile and networking that can come with large-scale philanthropy (Mehta, 2016). For diaspora philanthropists, giving in Canada that bridges with their homeland is particularly meaningful. People not born in Canada or who are non-citizens give less than Canadian-born citizens (Lasby & Barr, 2018), but data suggests there is future potential for giving if they are asked and appropriately engaged. It goes without saying that "non-white" may not mean someone from away. Indeed, many racial and cultural groups have contributed to the fabric of Canada for more than a century, and continue to do so. Yet the sector has not done a great job over the years of being inclusive and ensuring that all voices have been able to participate, lead, and give, to its detriment.

There are indications that fundraisers are responding to this new Canada. For example, the

Association of Fundraising Professionals' (AFP) award-winning Inclusive Giving Project focused on understanding the philanthropic traditions and interests of 12 diverse cultural, sexual orientation, and gender communities in Ontario. The program has evolved into the Fellowship in Inclusion and Philanthropy, to nurture inclusive leadership within the fundraising profession. By encouraging a more diverse fundraising profession, developing greater cultural competence, and providing tools to connect with donors from a range of philanthropic traditions, the profession is harnessing the broad spirit of philanthropy to build a stronger Canada.

Third, in place of an individual philanthropist, philanthropic families are increasingly coming together to give collectively. They may give through a family foundation, DAF, or just a family giving budget and may be multigenerational, multibranch, and reflect the diversity of Canadian family structures (Hale, 2019). In the past, family members may have been less engaged, with the patriarch (most commonly) making key decisions and being the most visible in philanthropy. Through succession and generational dynamics, many are looking to engage more collaborative approaches, where philanthropic interests around the family table are being reflected in giving priorities and strategies (Hale, 2019). For these families, philanthropy is also often viewed as a tool for financial, civic, and moral education of children and young adults.

Philanthropy Support and Education

Where do the philanthropically inclined turn for philanthropic advice, support, and education? This, too, is changing, with a modest but growing support system involving a growing need and role for content experts and advisors. In recent research of the Canadian landscape, Michael Alberg-Seberich (2018) identified six clusters of this ecosystem, including philanthropy content and impact advisory firms and consultants; nonprofits such as community foundations and philanthropic intermediaries; fundraising entities such as CanadaHelps, Benevity and fundraising associations; banking and financial advisors, including foundations providing DAFs; charity law experts; and management consulting and accounting firms. Navigating this shallow web can be complex and challenging, yet the increasing number of fundraisers working and communicating with philanthropy advisors and intermediaries suggests that philanthropists are proactively seeking out the help they desire.

Looking ahead, there is both need and opportunity to deepen this support structure. In the research conducted by TD Bank on women's philanthropy (TD Bank & Investor Economics, 2014), participants cited as a challenge the lack of a place, space, or resource for peer-based independent advice about philanthropy. The increasing number of DAFs sponsored by the private sector also raises questions about the capacity of private sector institutions to effectively support the philanthropic needs of clients beyond the provision of a charitable vehicle (Hale, 2019). In response to this vacuum, some Canadian women philanthropists have joined US-based Women Moving Millions, which encourages and supports women to direct their philanthropic power to causes centred on women and girls. Many more philanthropists have sought out established philanthropy education programs in the US and Europe such as The Philanthropy Workshop. Alberg-Seberich (2018) envisions a future in Canada with more domestic resources, including a robust training institute and accreditation program for philanthropy advisors. One example of this emergence: the Canadian Association of Gift Planners (CAGP) has recently partnered to launch the Master Financial Advisor – Philanthropy (MFA.P) designation to support professional financial advisors to effectively address the strategic philanthropy goals of their clients.

Fundraising Is Changing

These unprecedented changes in the external environment and in giving are influencing the practices of fundraising. While the total number of charities in Canada has remained stable in recent years (McRae, 2018), charities are experiencing budget pressures and thus the need for greater philanthropic investment, requiring them to find new donors and increase the giving value of the donors they already have. There are four key trends that demonstrate how fundraising is responding to these challenges.

Deploying New Technologies

As noted, technological innovation has not only transformed much of society but has provided myriad vehicles for charities to reach and communicate – in real time – with their constituents as well as with audiences previously unavailable to them. Technology has also made giving easier than ever before and enhanced organizational capacity and efficiency. While the total number of individual donors decreased 0.9% per year from 2011 to 2015, the number of online donors increased 12% per year (CanadaHelps, 2017). On the CanadaHelps platform alone, online giving increased by 22.5% per year from 2006 to 2015 (CanadaHelps, 2018). From websites that communicate an organization's mission and impact, and accept donations, to event registration and auction software, online giving platforms and related technology have become critical to fundraising. For example, virtual reality is being used by international development charities to "bring" donors to refugee camps as a way of giving life to the critical work on the ground. Facebook, LinkedIn, and other networking sites are tremendous tools many charities can use to engage in two-way communication about their work and leverage peer networks of their "friends" for events, campaigns, and advocacy initiatives. Crowdfunding sites tap into people's desire to respond to a pressing need or emergency. While gifts to crowdfunding campaigns are a popular way to "give back" and "help," they typically are not directed to registered charities and thus are not tax-receiptable; indeed, 25% to 30% of crowdfunded dollars go to individuals rather than charities (Hall, Mendez, & Masterson, 2017).

The pace of technological integration in fundraising raises some important considerations for giving and the nonprofit sector. Engaging technology results in valuable data that charities can use to advance their missions, but they must do so in accordance with legislation and broader concerns about privacy and use of personal information. Older donors engage online almost as much as younger ones (CanadaHelps, 2018; Blackbaud & HJC, 2013), but nonprofits need to ensure the technology they embrace is accessible and meets the needs and interests of differing donor segments. In addition, there remains a digital divide in the charitable sector that reflects a similar reality in the broader community. Because of cost and lack of knowledge or human resources, some charities have only a modest online presence and may have difficulty even keeping a website or Facebook page up to date. The risk for these charities of being left behind is significant.

Cultivating Communities of Interest and Identity-Based Fundraising

In response to Canada's diversity, the desire to be inclusive, and the need to tap into new donor audiences, fundraisers are developing specific strategies around communities of interest and identity. Be it women, families, LGBTQ people, ethno-cultural groups, or diaspora communities, targeted cultivation efforts and campaigns to involve traditionally overlooked prospects are creating tremendous opportunities for charities in Canada. While some of these groups have tended to be less involved philanthropically (AFP Foundation for Philanthropy Canada & Ipsos, 2017; Lasby & Barr, 2018), other data suggest that these engagement strategies are not in vain.

When undertaking more targeted approaches in fundraising, charities must consider a number of organizational factors in order to be credible and authentic and avoid tokenism or exploitation. Is the strategy of outreach and "inclusion" being driven primarily by revenue or does the organization truly value inclusion? How diverse is the organization's senior leadership, board, and fundraising team? What internal changes does the organization need to make for new supporters to feel part of its community? No one wants to be wanted only for their money. Each donor brings passion, skill, connections, and, in many cases, rich philanthropic traditions, from which our sector can benefit.

Retention Is King

Acquisition of new donors is increasingly challenging, and charities can no longer rely on what had already been modest response rates from traditional acquisition methods. This is a significant challenge for small and new organizations, which do not benefit from a deep donor file. For all charities, donor retention has become even more critical. The Fundraising Effectiveness Project (AFP, 2017b) found that for every 100 donors gained, charities lost 99, and for every $100 raised in new gifts, charities in Canada lost $95 through gift attrition. Charities are losing donors faster than they can gain them. This has put strategies to retain donors – especially those who have made their first gift to a charity – front and centre. The need to be more creative in attracting and retaining donors is also one factor in the growing professionalization of fundraisers.

Professionalizing Fundraising

As enabling agents, fundraisers are at the fulcrum of fundraising and philanthropy. They have a critical role in the philanthropic ecology of Canada and represent a large and increasingly professionalized community. While there are no consolidated data on the total number of fundraisers, AFP (the largest professional association globally) alone boasts 3,500 members across the country. In addition to AFP, the fundraising community in Canada is also supported by the Association for Healthcare Philanthropy (AHP), the Canadian Association of Gift Planners (CAGP), the Association of Professional Researchers for Advancement (APRA), the Council for Advancement and Support of Education (CASE), and other regional and local associations. Fundraisers are not required to belong to an association, but these professional bodies have been central to the development of professional fundraising over the last 30 years. Professional associations continue to provide codes of conduct and ethical practice standards, professional development opportunities, networking, and advocacy on issues impacting fundraising. They also contribute to an increasingly global network of professional colleagues quick to share cultural insights and leading practices, through international conferences, online sharing platforms, and practitioner research.

Fundraisers at Work

Fundraising professionals are an important, and distinctive, component of the philanthropic and nonprofit sector. A 2018 sample of Canadian fundraisers, conducted as part of AFP's annual Compensation & Benefits Survey of their members across North America (AFP, 2018) shows that Canadian fundraisers are overwhelming female (82%) and Caucasian (89%) (see Breeze, 2017 on the UK; Shaker et al., 2019 on the US). While men are only 18% of the sample, they earn 31% more than women and often hold the most senior roles. Canadian fundraisers are also highly educated, with 31% having done post-graduate work or completed a graduate degree, and the average salary is $85,588. At these salary levels, which increase based on track record and tenure, the ability to attract and retain a professional fundraiser is a luxury for many organizations.

Turnover and quality of work life of fundraisers remain critical issues for the profession. In both 2007 and 2016, 48% of Canadian fundraisers surveyed had been with their current employer for two years or less (AFP, 2008; 2017a). In a US study (Bell & Cornelius, 2013), it was found that as many as 57% of fundraisers anticipated leaving their current employer in the next year or two, declining to 38% for more well-resourced organizations with revenues over $10 million. The strong market for experienced fundraisers contributes to these statistics but so too do stress, unrealistic expectations, and organizational leadership not supportive of philanthropy. In the wake of the #MeToo movement, women fundraisers have also shared their own stories of harassment in the workplace, including by donors and prospective supporters (Sandoval, 2018). As in many other industries and professions, harassment and abuse of fundraisers is an issue that charities need to address with clear policy and decisive action.

Even as the profession continues to emerge and evolve, the fundraising community has not yet fully anticipated how advances in technologies such as artificial intelligence and robotics will affect the profession and how fundraising is practised. Given that in most nonprofits the fundraising function is both a cost and revenue centre, it could be prime for cost-reducing technological adaptation, although implications of this on donor relationships may hang in the balance.

Fundraising Certification and Education

Certification for fundraising is provided globally by the US-based CFRE International. The Certified Fund Raising Executive credential is a practice-based credential that assesses candidates with a minimum three years of experience against the articulated body of professional knowledge, with a requirement to recertify every five years. CFRE was established as a way, in part, to validate the profession in its early years, stave off mandatory licensure, and bring some cohesion to an otherwise anecdotal body of practice (Hale, 2011). Independent from the CFRE, AFP offers an advanced leadership credential, the Advanced Certified Fundraising Executive (ACFRE) for professionals with more than 10 years of experience (and does not require recertification). There are currently 900 CFREs and only nine ACFREs in Canada.

Access to fundraising education in Canada has evolved significantly as the profession has emerged. While there are many nonprofit management certificate programs, there are fewer programs specific to fundraising. In 1983, the pioneering Humber College Fundraising Management program in Toronto grew out of a partnership with what was then the Canadian Centre for Philanthropy, now Imagine Canada (The Founding of the Canadian Centre for Philanthropy, 2000). Today, Humber College is joined by eight to 10 other institutions, mainly community colleges, offering certificate or diploma programs across the country. In 2013, Carleton University launched a Master of Philanthropy and Nonprofit Leadership (MPNL) degree (the first, and still only, of its kind in Canada), whose fundraising courses can earn credits toward the CFRE. This program emerged in part from early work done by Canada Advancing Philanthropy (CAP), a group of senior fundraising leaders, many of whom had to go to the US to seek advanced fundraising education. These leaders felt not only that there should be a Canadian alternative but that the future of Canada's philanthropic sector required the innovation and scholarship that academia can nurture. Since its founding, the Carleton program has been oversubscribed, an indication of a significant demand for graduate-level education and scholarship.

Trends to Watch

As giving and fundraising evolve, there are several emerging trends to watch that are shaping how donors give and to whom, with significant implications for fundraising.

Giving Strategically and Collaboratively

Donors give, most often, to make a difference, create an identified change, or solve a problem. Impact is the degree of difference or change made. Donors are increasingly impact-focused, and this orientation is leading them to be more strategic and collaborative in their giving (Philanthropic Foundations Canada, 2017). Engaged philanthropists want to meet with and hear from a range of stakeholders to help define the issues and develop approaches to tackle these in a multi-pronged fashion. One approach to collaboration is for multiple donors to pool and focus their resources into a common initiative. Giving circles support such collaboration and shared learning, may have a loose or formal structure, and may comprise a handful of individuals or hundreds. For example, the 100 Women Who Care giving circles have subsequently morphed across the country into 100 Men, 100 People, and 100 Girls circles. Meetings may happen monthly, quarterly, or annually, in-person or virtually, and focus on identifying and selecting grantee organizations while learning about giving and the nonprofit sector. There is little information on giving circles in Canada, but in the US the number of giving circles tripled from 2007 to 2016, including circles based on gender or other forms of identity and those that tend to grant to local causes (Giving Circles Research Group, 2017). Another approach is for a donor to fund a collaboration of change-makers. A 2014 example is the $130 million gift from the Rogers family to establish the Ted Rogers Centre for Heart Research (Hutchins, 2014). The largest gift in Canada's history leveraged an additional $139 million in matched funds and was divided between the Hospital for Sick Children, the University Health Network, and the University of Toronto – representing a consortium of scientists and researchers to study heart-disease prevention and treatment.

Giving to Advance Reconciliation

Indigenous issues are increasingly on the radar since the 2015 Truth and Reconciliation Commission (TRC) report and the Missing & Murdered Indigenous Women and Girls inquiry, which gave Canadians greater insight into the history and legacy of the abuse and oppression of Indigenous people in Canada. Such recognition should be compounded by the significant, ongoing infrastructure issues (from clean water to food security and housing) faced by many Indigenous communities across the country. In response to the historic opportunity of the TRC report, the philanthropic community's Declaration of Action encourages donors and funders to commit resources to reconciliation; The Circle on Philanthropy and Aboriginal Peoples in Canada serves as a resource for philanthropic organizations looking to give to and collaborate with Indigenous Peoples. It is anticipated that more Canadians will respond philanthropically, but to date the response could be assessed as somewhat disappointing.

Giving while Living

There is increasing interest among philanthropists in making their philanthropic impact while they are living, rather than waiting until after their death for their resources to be harnessed for good through a bequest. This has been driven in part by decades of low interest rates and a move to more strategic impact-oriented giving. These givers, especially women givers, want to see and enjoy the results of what their giving makes possible (TD Bank & Investor Economics, 2014). In the foundation community, there has been debate for some time as to the merits and drawbacks of operating in perpetuity versus having a spend-down strategy or operating on a flow-through basis. Certainly, there are a variety of factors involved in this decision, including philanthropic objectives, family considerations, and taxation. In spite of the growing debate about the value and ethics of perpetuity, currently only 25% of foundations use a flow-through model rather than permanent endowment (Philanthropic Foundations Canada, 2017). This practice will likely increase as philanthropists look for the ability to be nimble and adjust strategy as to how they deploy their philanthropic dollars over time. This would be good news for those across the nonprofit sector who have called for philanthropists to give now to tackle entrenched issues and challenges, as well as to better leverage endowed assets for good.

Conclusion

Change is notoriously difficult to navigate, yet it has the potential to usher in a tremendous amount of good. Nevertheless, the potential for the philanthropic sector to plunge into paralysis in response to the dynamic forces currently impacting giving and fundraising is very real, particularly for small and resource-limited organizations. Yet there is considerable evidence that fundraisers, charities, and philanthropists are responding positively and evolving their practices and are generating new ways of giving and investing, raising funds, engaging constituents, and assessing impact that will take root and flourish in the years to come.

Some critical questions remain unanswered. How can we increase philanthropy in Canada? Is a future with more donors who give more possible? Will traditional philanthropy be supplanted by other forms of “giving” or “investing”? Will Generation Y and millennials emerge to ultimately match the giving levels of their boomer and civic parents and grandparents? Will charities more effectively engage with and make room for a greater diversity of fundraising staff, leadership volunteers, and donors? What legislative and regulatory changes might strengthen the charitable sector rather than impede it? How will the sector’s digital divide be addressed? What impact will new technologies such as artificial intelligence and robotics have on fundraising and giving? What kinds of platforms will be created to better support donors and philanthropic families in their giving? Will philanthropy play a significant role in reconciliation? How we answer these questions may determine the future resilience of Canada’s philanthropic capacity.

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Biography

Sharilyn Hale, Watermark Philanthropic Counsel

Dr. Sharilyn Hale helps those who give, give well. As president of Watermark Philanthropic Counsel, she enables philanthropists and their families to unearth and achieve their philanthropic goals and helps social-purpose organizations deepen their performance, drawing on expertise in philanthropic strategy, family engagement, organizational development, and governance. An author and educator with a career spent in the charitable space, Sharilyn's doctoral research focused on governance and family philanthropy in Canada, and she continues to study the giving of generous people.

The Funding Environment

Chapter 11

New Technologies and Fundraising

Marina Glogovac
CanadaHelps

Giving in Canada is on the decline. The reasons for this disturbing trend are complex, multi-factorial, and understudied. The potential long-term consequences on charities' declining ability to meet demands for their services, which are increasing, cannot be underestimated.

In *The Giving Report 2021*, analysis from CanadaHelps and Imagine Canada found a number of troubling patterns:

- The number of Canadians claiming a charitable donation on their tax filings, what we call the "participation rate," fell from 24% of tax-filing individuals in 2007 to 19% in 2017.
- Even as Canada's population has grown, total donations haven't kept up at the same rate as the growth.
- CanadaHelps's projections of total giving in 2020 show that the COVID-19 pandemic and economic recession have hurt the charitable sector in similar ways to the 2008 Great Recession, with an estimated drop in total giving of $1.2 billion in 2020.

In addition, research suggests that millennials (also called Generation Y) are giving less in monetary donations than previous generations, and this group is not expected to start donating more even as they get older and their incomes increase (Rovner, 2013). One exception is related to social justice causes. For example, after the start of protests in May 2020, young Canadians became more active regarding colonization, police brutality, and racism in Canada – and, increasingly, they are donating more to charities involved in social justice movements (CanadaHelps, *The Giving Report,* 2021).

Still, millennials give the least amount in average donations, compared to other demographics, and they give to the fewest charities overall (Rovner, 2013). The millennial generation considers influence among peers as currency and their time to be as useful as a cash gift. They want to see impact, are much more interested in causes, and have little regard as to who is actually doing the work (i.e., social enterprise vs. traditional charity). Just as fundraising is multi-channel, and donations are difficult to attribute to a particular campaign or program, millennials are comfortable with multiple approaches to making a difference.

These demographic shifts and changes in attitudes have meant that philanthropy in Canada is increasingly falling on the shoulders of a shrinking pool of older donors. A 2018 research study, *30 Years of Giving in Canada*, published by the Rideau Hall Foundation and Imagine Canada, confirms some of these troubling metrics. “The overall trend is clear: the donor base is getting ever-smaller and changes in total donations are now primarily driven by variations in how much donors give. From the peak in 1990, the percentage of taxfilers claiming donations has dropped by roughly a third, while the average amount claimed has nearly doubled. This means that charities are relying on an ever-smaller number of people for donations” (Lasby & Barr, 2018).

The decline in giving is occurring against a backdrop of technology upheavals occurring with increasing intensity in the last couple of decades. Philanthropy – like the media, travel, retail, publishing, and music sectors – is being affected and transformed by the proliferation and widespread adoption of digital, mobile, and social technologies. In this age of technology and all things digital, many charities are failing to engage donors who have become digitally savvy. Charities are failing to move successfully to a place where consumers gather – online and via mobile devices – and failing to replace direct mail or shrinking corporate or government support. As CanadaHelps’s *Digital Skills Survey Results 2021* makes clear, our sector as a whole, and smaller charities in particular, need to transform digitally, and at a much faster rate.

We live in a time of “disruptive innovations” and “creative destruction.” Entire industries have been wiped out, weakened, and in many cases replaced by new ones that did not exist a few years ago. This era of creative destruction has brought about a fundamental change in the way people engage with each other, with businesses, with government, and with charities.

On a deeper level, it is not about new products or new ways of doing things, but rather a wholesale rewriting of both the rules of engagement and the rules of business: who can do what, who can compete with whom, and under what circumstances? All sorts of boundaries are blurring, old monopolies broken and new ones established, and different competitors are emerging. In the charitable space, the question is: what is charitable and who gets to do “charity”? Old definitions are crumbling or expanding, at minimum.

This is a networked information economy dependent on fast-emerging and fickle consumer preferences, and the charitable space is not exempt. Today, consumers are looking for everything to be available anytime, anywhere, and want a seamless experience across devices.

On top of that, COVID-19 has become a wake-up call in the charitable sector and a catalyst for digital transformation because of massive funding losses for charities in 2020 and 2021. Even as total donations plummeted in 2020, online donations skyrocketed, as large numbers of charities adopted or expanded their use of digital tools. However, extensive rethinking, experimentation, and innovation are still required, as a majority of charities report that they do not have enough funding or do not have the skills, expertise, and knowledge for greater use of digital tools (CanadaHelps, *DSSR*, 2021).

There is no reason to assume that the era of rapid change will abate any time soon. This chapter explores some of the key forces driving disruption and the impact of these technological changes on the charitable sector.

Key Forces Driving Disruption

This is the time of the Fourth Industrial Revolution, according to Klaus Schwab, executive chairman of the World Economic Forum:

> The First Industrial Revolution used water and steam power to mechanize production. The Second used electric power to create mass production. The Third used electronics and information technology to automate production. Now a Fourth Industrial Revolution is building on the Third, the digital revolution that has been occurring since the middle of the last century. It is characterized by a fusion of technologies that is blurring the lines between the physical, digital, and biological spheres (Schwab, 2016).

We're experiencing an exponential rate of change, in every industry, including the charitable sector.

Ubiquity of Broadband and Computing Devices

Broadband has taken over the world. In 2020, more than 4.5 billion people worldwide were using the internet (We Are Social, 2021). And a survey from Statistics Canada reported that approximately half of Canadians who used the internet in 2020 used it more than 10 hours per week, excluding time spent streaming content and playing video games, and 88% of internet users reported having a smartphone for personal use, with many using their phones to conduct online banking activities (63%) or to purchase goods and services (54%) in the 12 months preceding the survey (Statistics Canada, 2019).

In Canada and the United States, 33% of donors say that email is the communication tool that most inspires them to give – and 63% of donors prefer to give online with a credit or debit card (Nonprofit Tech for Good, 2020).

Peer-to-Peer: New Mechanisms of Influence

Internet-facilitated, person-to-person interaction is the most significant, technology-propelled innovation of the last decade. It enables buyers, sellers, givers, and receivers of niche content to connect individually and in networks. Powered by social sharing and algorithms that analyze individuals' actions, this is a new environment where "peer-to-peer" (P2P) dominates, especially for younger generations. Sites like Trip Advisor and Yelp helped to pioneer the decentralization of service- and information-sharing, paving the way for Airbnb, Uber, and other P2P-powered disruptors. More specifically, in our sector, P2P fundraising empowers individuals to personalize fundraising pages and tap into their personal and professional networks, all of it facilitated by apps, forums, and online tools that galvanize communities around interests, passions, and specific causes.

As a result of this trend, we see a transfer of authority to family and friends and a breakdown of traditional authority structures, with a shift to transparent and shared interactions. This has also led to technologies, such as blockchain and cryptocurrencies, that circumvent centralized authorities, including banks.

There are many examples of how P2P has upended traditional fundraising. Movember, for example, is a campaign that centres on men growing moustaches and beards to raise money for men's cancer, mental health, and suicide prevention and was one of the top P2P initiatives in 2020, raising more than $24 million that year, up 21% from 2019, in spite of the pandemic (Peer-to-Peer Fundraising Canada, 2021). The campaign had launched a do-it-yourself platform, Mo Your Own Way, that provides people with new ways to create personalized fundraising challenges. The Terry Fox Run (by The Terry Fox Foundation), the Great Cycle Challenge (by SickKids Foundation), and the World Partnership Walk (by the Aga Khan Foundation) are three other examples of successful P2P campaigns in Canada (Peer-to-Peer Fundraising Canada, 2021).

We've also seen the rise of donations as a result of publicized political and social injustices. Some examples:

- In May 2020, after the police killing of George Floyd in the United States and the resulting anti-racism protests around the world, many more Canadians donated to charities working with Black and Indigenous communities and those involved in social justice movements (CanadaHelps, *The Giving Report,* 2021).
- A 2018 Facebook fundraiser raised US$20 million for the nonprofit RAICES (Refugee and Immigrant Center for Education and Legal Services) in response to President Donald Trump's policies that separated refugee children from their parents at the United States border.
- A GoFundMe campaign raised more than $15 million for families connected to the 2018 Humboldt bus accident in Saskatchewan (GoFundMe, 2018).

Such P2P campaigns will continue to tap into people's powerful emotions in years to come. Peer-to-peer influence has become ingrained in the way technology is designed and used, and it has fundamentally changed the way we relate to each other in our sector.

Proliferation of Data Volume and Availability

Massive amounts of real-time data are constantly being uploaded from cellphones, computers, smart sensors in appliances, and wearable technology, such as fitness devices. The impacts of such shared data are far-reaching. More information, more accountability, and more competition are changing the nonprofit sector.

In particular, accountability and better programs are being created through the secure sharing of data among charities, governments, and academics. There are many examples, but a few stand out:

1. Statistics Canada runs the Social Data Linkage Environment (SDLE) and the Linkable File Environment (LFE) and allows access to administrative data, such as data about legal aid in Saskatchewan and recidivism rates in Nova Scotia (Statistics Canada, 2021).

2. The nonprofit Canadian Partnership for Women and Children's Health (CanWaCH) runs Project Explorer, an open-access data resource about a wide range of development, humanitarian, human-rights, and gender-equality projects in Canada and the world, a resource that allows users to search, understand, and improve the delivery of programs (CanWaCH, 2021).

3. The State Funding for Social Movements project examined the history of state funding for social movements in Canada and produced a searchable database of 20,000 pages of government records regarding grants to organizations for Indigenous Peoples, the environment, human rights, and women (State Funding for Social Movements, 2021).

In addition, donors want access to some of this data when it comes to accountability. The 2017 Burk Donor Survey found that 72% of donors favour charities that communicate measurable progress on their charitable goals, up from 38% only five years before (Burk, 2017). Today, charities must provide constant access to sophisticated and accurate information, presented well, about what they are doing and how they are progressing.

It is possible to capture, use, and communicate more data through digital technologies. Despite this, charities in Canada lag in the adoption of even basic digital tools. In CanadaHelps's *Digital Skills Survey Results 2021*, a majority of charities rated their skill level as "fair," "poor," or "not aware" regarding 12 of 15 basic digital tools (CanadaHelps, *DSSR*, 2021). With digital fundraising continuing to grow, charities are at risk of falling further behind and must consider building capacity as an urgent need.

Cloud Technology

The "cloud" refers to a variety of internet-based computing services that had previously been managed or accessed in-house. Cloud computing provides anytime access to networks, storage, applications, or services and is more cost-effective than traditional models. Common examples are web-based email and document storage and online constituent relationship management (CRM) database systems used by charities to manage donations and donor stewardship.

Not only is this a growing area of the economy; it allows nonprofits to access more stable, up-to-date, and scalable technology services at lower costs and without needing technical expertise and hardware. In theory, this can enable charities to achieve economies of scale while allowing them to focus more on their mission and less on building infrastructure. This is an enabling factor that is the good news for charities as we move into the digital-fundraising age.

Key Areas of Impact of New Technologies in the Charitable Space

Online Giving Is on the Rise

While Canadians have donated less overall, online giving has increased 27% per year on CanadaHelps's platforms from 2006 to 2020. Approximately 1.1 million Canadians donated more than $480 million online through CanadaHelps in 2020 – and Canadians doubled their donations on GivingTuesday that year, compared to GivingTuesday in 2019 (CanadaHelps, *The Giving Report*, 2021). These increases are indicative of the ease of online giving and the pace at which all digital commerce is moving.

Digging deeper, we see that online donations via mobile devices (smartphones and tablets) is rapidly increasing: mobile donations grew 33% in 2019, compared to 25% for desktop users (CanadaHelps, *The Giving Report*, 2020). And mobile data traffic will likely continue to grow.

Clearly, online giving is on a trajectory to being the dominant method of giving. It is increasing in all demographics: in 2015, 31% of respondents under 35 years of age had responded to at least one online appeal, but so had 26% of middle-aged and 28% of senior respondents.

Email and social media are increasingly where donors learn about causes or are inspired to give; in 2019, 33% of online donors in Canada and the United States said that email most often inspired them to give, up from 31% in 2018 (Nonprofit Tech for Good, 2020).

Ubiquity of Social Media and Social Networks

Studies show that social media is an important gathering place for donors of all ages who are already committed to a cause. In 2019, 18% of donors in Canada and the United States said that social media is the most inspiring way for them to donate, down from 25% in 2018, but social media is still dominant. Fundraising tools, such as those run by Facebook and Instagram, are increasingly powerful: 40% donated through Facebook and 12% through Instagram in 2019 (Nonprofit Tech for Good, 2020). Millennials, for their part, are likely to donate if coworkers ask, and 7% of them have raised money through person-to-person fundraising platforms three or more times throughout a given year (Hall et al., 2017).

Rise of Crowdfunding and a Preference for Direct Engagement

With its broad reach, low cost, and one-on-one connections, crowdfunding – through GoFundMe, Facebook, Indiegogo, Kickstarter, and other platforms – is growing quickly: US$34 billion globally and counting (Mayer, 2020). Crowdfunding is similar to peer-to-peer fundraising but is larger. GoFundMe raised US$5 billion through 2017 (the last year for which fundraising totals are available), and a third of that was for medical campaigns (Monroe, 2019). With crowdfunding, most personal philanthropy does not go to charities and is not receipted – and frauds and scams are regularly discovered – but these facts have not obstructed crowdfunding's growth (Mayer, 2020).

According to the *2020 Global Trends in Giving Report*, 34% of donors in Canada and the United States gave through crowdfunding, and 10% created P2P fundraising campaigns (Nonprofit Tech for Good, 2020).

The overall market of crowdfunding donations may be small, relative to overall charitable giving in Canada, but the for-profit platforms powering this new way of giving are growing at incredible speed. This, combined with changing demographics and donor behaviour, makes crowdfunding worth discussing.

According to *What Canadian Donors Want*, a survey done in 2017, 53% of respondents aged 18 to 34 and 43% of those aged 35 to 54 agreed with the statement "In the future, I think I will be more inclined to give directly to causes (through crowdfunding fundraising) than give to a charity" (Bowyer et al., 2017). What's more concerning is that 16% of donors surveyed in 2018 reported that they donate less to nonprofits because they have given financially to crowdfunding campaigns (Nonprofit Tech for Good, 2018).

The success of crowdfunding highlights yet another paradox: while donors seek increasing accountability for their gifts to the charitable sector, crowdfunded donations are often made impulsively, without that due diligence, out of the belief that this approach eliminates unnecessary bureaucracy and that direct beneficiaries know best what they need. Unfortunately, this trust is not always well placed, and there are many reports of fraudulent crowdfunders, such as a deceitful GoFundMe campaign by a couple in Pennsylvania, who, along with a homeless man, raised $400,000 based on a fake story of generosity. The trio were all charged criminally, and GoFundMe refunded all the money (Helsel, 2018).

Crowdfunding also often addresses a particular person's situation rather than the broader and systemic problems behind it, which, naturally, are harder to solve. In short, crowdfunding feeds into a naive "solutionism" approach to social problems while circumventing real, potentially long-lasting, and more complex problem-solving.

Need for Increased Security and Privacy

With the growth of digital donations, security and privacy become critical. Digital payments typically require the transmission of personal information to financial institutions and other parties within the transaction process. Personal information must also be stored in a database for recurring transactions, along with purchasing habits, social media data, and other information that can be associated with digital transactions. Canada's anti-spam legislation (CASL), the EU's General Data Protection Regulation, and other legislation around the world protect people from spam and the misuse of digital technology in general. Canadian donors now expect charities to get explicit consent for retention of personal and banking information, as well as provide full transparency on how this information will be used.

Web security trends are not positive. According to The Citizen Lab, an interdisciplinary laboratory based at the University of Toronto, corporations, organizations, and governments have to do more about privacy, security, and surveillance concerns. Hackers regularly take advantage of websites that fall behind in cybersecurity measures, and charities must pay attention to website encryption or risk losing donors (not to mention the risk of reputational damage due to a hacked site or leaked data).

Emerging Technologies Promise More Change

There are a number of upcoming technologies that will affect the charitable sector further. It is not yet clear to what extent, although there are some early case studies and uses that promise to be impactful and potentially transformative.

Artificial Intelligence

The simplest way to describe artificial intelligence (AI), or "machine learning," is: technology that performs tasks or solves problems that were previously done or solved by humans. Because of fine-tuned algorithms embedded in it, AI learns and improves on its own over time.

Charities have a massive amount of data, most of which is not being leveraged. Effectively using AI to mine this data would be an opportunity to increase and demonstrate charities' impact, speed up research, and build internal capacity. While an element of competitiveness will also exist because of scarce fundraising dollars, the shared desire for public good in the charitable sector opens up opportunities for data-sharing that, combined with the power of AI, could be substantial for the sector.

As with any new technology, the risk is that it will not be used for social good, despite promises. With that in mind, several tech giants – including Google, IBM, Microsoft, Facebook, and Amazon – created the Partnership on Artificial Intelligence initiative (Partnership on AI, 2021). Through this network, UNICEF is applying elements of machine learning to private-sector data to create models that assist emergency-response efforts, and, in Colombia, UNICEF is using real-time data about reported cases of dengue fever and human mobility (measured from mobile phone records) for computer simulations that will generate real-time forecasts about the risk of the spread of dengue in Colombian municipalities (UNICEF, 2021).

AI tools will likely become embedded in nonprofit work and fundraising in the future.

Chatbot Messaging

Chatbots are a version of AI that enable users to "chat" with an automated system, asking it questions and receiving immediate answers. You see these "chat" tools in the bottom right corner of large websites that provide customer service. The chatbots route requests and gather information using word-classification processes and, sometimes, sophisticated AI. Often, they channel you to a live agent.

Nonprofits see the benefits of chatbots and are embedding them on websites and messaging platforms such as Facebook Messenger. For example, Raheem.ai offers a chatbot that collects and rates experiences with police officers and publicly reports anonymous data (Raheem AI, 2018).

In fundraising, chatbots provide opportunities to engage donors with a cause, soliciting donations and offering an interactive experience to learn about the cause or the impact of the donation. An international development charity called WaterAid developed a chatbot to connect donors to "Sellu," a villager in Sierra Leone, providing an interactive experience using messages, photos, and videos related to WaterAid's work (Hobbs, 2018).

Virtual Reality

As virtual reality (VR) becomes more mainstream, activities other than gaming may also become widely adopted applications. V-commerce, or "virtual commerce," for example, integrates VR into online purchasing experiences to engage consumers more.

Nonprofits are also starting to use VR to communicate the importance of their work (Matthews, 2017). The Sierra Club created a VR climate change video, in partnership with the Environmental Media Association and RYOT, with a celebrity narrator to help people understand the drastic changes in our climate and create a sense of urgency for their cause (Sierra Club, 2015). The VR experience offers more than just images of impact; it provides donors with the opportunity to feel the effects of their contributions. It remains to be seen just how widely this technology will be adopted to tell stories in the coming years.

Blockchain

A blockchain is a list of transactions in a cryptocurrency (such as Bitcoin) maintained on many computers connected via a network. Blockchain allows for transactions to be captured digitally and authenticated, and it ensures that the transactions cannot be changed. Blockchain is used for digital payments, subscriptions, receipts, bank accounts, insurance policies, identity documents, contracts, and many other transactions.

Blockchain applications for the nonprofit sector have already started. For example, the Blockchain for Social Impact Coalition, based in the United States, is a nonprofit that develops blockchain products and solutions that can address social and environmental challenges (Blockchain for Social Impact Coalition, 2021). Blockchain for Humanity (b4H), a foundation based in Gibraltar, focuses on emerging technologies that can offer a positive social impact.

In addition, the technology is being used to verify outcomes of nonprofit work. The "ixo protocol," for instance, uses blockchain technology to verify claims of impacts, which are, in turn, certified with digital assets that nonprofits can use to support funding arrangements. An example of this is the Amply Project, which used a mobile app enabled with the ixo protocol to track attendance in South African schools in 2017. The teachers inputted children's attendance, which was then confirmed by an evaluator. These confirmations were turned into digital assets using blockchain technology – and were used to access educational funding from the South African government (Fernando, 2018).

In 2017, the United Nations World Food Programme used Ethereum blockchain to pilot a system with Syrian refugees based in Jordan who were given cryptocurrency vouchers to trade at selected markets. The platform was successfully used to record and authenticate transfers for about 10,000 individuals (del Castillo, 2017).

While the uses and implications of blockchain technology are complicated – and still rely on trusting other humans to verify transactions – the downsides include vulnerability to hacking and human error (Stinchcombe, 2018).

Bitcoin and Other Cryptocurrencies

Bitcoin, a cryptocurrency with a value determined by consensus rather than a bank system, has become mainstream. Many nonprofits are accepting cryptocurrencies for fundraising, even though the process is labour intensive and requires careful planning.

Third-party companies, such as The Giving Block and Every.org, facilitate the transfer of cryptocurrencies to charities in Canada and the United States, and many of the firms accept various types of cryptocurrencies, not only Bitcoin (Stiffman, 2021). Pathways to Education, a Canadian charity that works with low-income youth, has been accepting Bitcoin donations since 2013 (Donate Bitcoin, 2017). Similarly, a 2017 Christmas crowdfunding event in Toronto raised more than $200,000 for Covenant House, enabled by the Ethereum blockchain (Convenant House, 2017). In Canada, charities can offer tax receipts for the value of these donations;

however, donors cannot take advantage of the capital gains exemptions provided for gifts of other types of asset donations, such as securities (Financial Consumer Agency of Canada, 2021). Some nonprofits, such as the Clean Water Coin initiative, have created their own currencies to fund their work (Clean Water Coin, 2021).

It is too early to tell whether cryptocurrencies will gain wider adoption in the charitable space, but savvy charities may be able to reach a new type of donor.

Some Final Thoughts

The current philanthropic context is characterized by:

- repercussions related to the COVID-19 pandemic;
- the growth of digital technology and culture;
- reduced giving by millennials;
- increasing fragmentation in online fundraising;
- the rising use of artificial intelligence, blockchain, and other emerging technologies;
- the increasing use of data to drive decisions amid the context of growing regulation and consumer concerns about data ownership and privacy; and
- the unequal adoption of new technologies.

It is clear that charities need to develop new competencies and capabilities to adapt or reinvent their roles and services in the digital age. These new competencies will involve the acquisition and integration of technology and digital skills to benefit from changes and opportunities with donors. The boundaries around the charitable space are more porous because of technologies, and the emerging competition will dictate adoption as the only choice, or else. Boards of directors across all categories of charities will need to abandon the status quo and push for change and risk-taking.

It is tempting to think that technology democratizes access to success, but increased access needs to be paired with expertise and investment in order to be leveraged, especially because the procurement of talent is a big issue.

Digital transformation is the new normal, and it is important for charities to understand the need to reconfigure priorities and disrupt themselves, even as they are disrupted from the outside by crises like the pandemic. In an environment where learning from failure is usually not easily accepted, digital transformation is especially hard for charities. But charities must change their strategies to meet changing donor needs, and must be prepared to challenge deeply held assumptions.

Increasingly, new donors may not care what is and is not a charity and will be more open to social enterprises and for-profits that are seen as making social impacts. The blending of market and non-market organizations may trigger changes in reporting, finance, and regulations, but it is clear that charities need to create an even playing field to successfully pursue their missions amid new and sometimes better-financed entrants into the “charitable” space.

Through technology, charities – the original social enterprises – have significant opportunities to scale their impacts in the world. The limited technology competencies of many small charities means that their success will not be a slam dunk. Charities must decisively and urgently break their own status quo patterns of thinking and embrace change, innovation, and learning (which involves risk-taking and failing). If they do not, the current broader trends that I have just described, along with the general blurring of forms and purposes, will leave them vulnerable.

In the new, fast-changing, and ambiguous world of social change, where we see a convergence of technology and the physical world, charities need to make a case for their importance with renewed vigour, using new tools, methodologies, and competencies. As societal assets of almost unquantifiable import and as effective agents of social change, charities must continue to fight for accurate public perceptions of their work. There are many new tools to help them do that – and it is up to them and their boards to embark on the process of digital transformation. This is a path of investment, learning, and risk-taking, but also of great significance for charities and their causes.

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Biography

Marina Glogovac, CanadaHelps

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The Funding Environment

Chapter 12

Philanthropy in Canada: The Role and Impact of Private Foundations

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Philanthropy is an ancient practice. Nevertheless, it is misunderstood and poorly researched, particularly when it is taken to mean the sector of organized grantmaking philanthropy. The purpose of this chapter is to shine a light on the ecosystem of organized philanthropy in Canada, and in particular on private grantmaking foundations. We have taken an approach that combines observations and perspectives from both the academy and the foundation sector.

First, we define what we understand to be organized philanthropy. Then we describe the landscape of private foundations in Canada. Third, we briefly describe the developments that are leading to a more formalized and active private foundation sector. Finally, we will summarize some of the key trends, challenges, and questions that private foundations face as players in Canadian civil society.

A Definition and Theory of Private Foundations

Although historians trace the practice of philanthropy back to Classical Greece, Rome, and early Islamic civilization (Hodgson, 1974), there is still no consensus on a formal definition of what constitutes organized philanthropy today.[1] The history of charity and philanthropy can be described as multilayered assumptions and practices (Cunningham, 2016). We could summarize those assumptions around two visions of philanthropic action (Robbins, 2006). The first, more typically "charitable," is associated with a fundamentally humanistic intention. In this vision, philanthropy offers resources to individuals or social groups who are poor, excluded, or marginalized. In the Middle Ages in Europe, for example, this form of assistance was usually provided through different religions and their affiliated organizations and orders.

The second vision of philanthropic action is related to the distribution of resources, primarily monetary, for activities of public benefit. This has shaped the actions of philanthropic benefactors who have funded works in the public interest. In Classical Greece and Rome, or in later periods, wealthy families gave part of their fortunes to construct aqueducts, fountains, and grand public baths or to support the production of works of art. These benefactors were acting with the intent to improve the material or moral quality of life of the citizenry. Sometimes the funds provided were channelled through private associations with a social purpose (an ancestral form of today's grantmaking foundations), which were regulated, in the Roman case, by the imperial administration.[2]

In both visions of philanthropy, whether for relief or for public benefit, the principal resources deployed were monetary. These resources came from the surplus generated by the economic activities of leading business families or from religious organizations. Modern foundations were created by wealthy donors – such as Andrew Carnegie and John D. Rockefeller – based on this historical tradition of philanthropy practised by wealthy families. Although foundations may have been inspired by history, they also revolutionized the practice of philanthropy in the legal, institutional, and organizational senses. Appearing in the United States at the end of the 19th century, these organizations grew slowly over the course of the 20th century. The growth of the foundation sector accelerated over the last three decades (Burlingame, 2004). Initially connected to the advances of the Industrial Revolution, modern foundations reflect the new forms of wealth accumulation as large fortunes were made in the context of a rapid transformation of society. These great fortunes were made at a time of new social challenges demanding new responses, and requiring additional resources for their resolution, be these resources public or private (Dowie, 2001).

Whether from the perspective of public benefits provided by wealthy elites (the American model) (Karl & Katz, 1987) or from the perspective of serving the public interest (the French model) (Margier, 2017), modern foundations address social challenges through the allocation of grants to cover unmet needs, basic needs, or needs in periods of emergency. Some foundations foster the development of fresh solutions through support for social innovation and systemic change on a larger scale. Others work to strengthen the development of individual or collective capacities, by defending democratic ideas or by supporting critiques of existing systems. Finally, some focus on supporting the growth or maintenance of key infrastructure in the areas of health, culture, social services, or education.

A Definition of Grantmaking Foundations

To define a foundation, we use the approach proposed by Anheier (2018: 2),[3] which is based on an analysis of structure and function. In this definition, foundations are formal organizations that are:

- asset-based to a significant extent;
- private;
- self-governing;
- non-profit distributing;
- serving a public purpose; and
- having the self-understanding of being a philanthropic foundation.

Five elements are important to this definition. First, philanthropic foundations are formal organizations; that is, they are formally constituted as legal and corporate entities. In this sense, they are subject to a set of standards developed and applied by a regulator of corporate entities. Second, under a legal structure such as that provided by the Canada Not-for-Profit Corporations Act, they are private self-governing entities. As organizations, they are part of the broader and very diverse set of institutions that constitute Canadian civil society. Third, foundations possess an asset base that is set aside as a form of endowment or trust. This asset base can grow through investments or through the annual collection of funds, as is the case with collective community funds such as United Way or institutional foundations such as those connected to hospitals or universities. The endowed asset base can also be created or added to by a corporation (such as the corporate foundations created by financial institutions). Fourth, the *raison d'être* of foundations is to respond to the public interest, and not to accumulate capital for private benefit. This does not prohibit the growth of an endowment through investments, but the disposition of the return on investment for public benefit is regulated under the federal Income Tax Act. Finally, the representatives or staff members of these philanthropic organizations self-identify as philanthropic actors or agents. However, the debate continues on the deeper or more commonly shared definition of this philanthropic identity.

In practical terms, grantmaking foundations have a unique identity within a hybrid world that devolves in part from and depends on:

- the private economy: through the sources of their funds and the investment of their endowments;
- the public or government: through the registration, regulation, and benefits conferred by the state, and by the nature of their activities in the public interest; and
- civil and nonprofit society: through the legal and organizational form that they take, and through the values and historical principles that they have inherited such as charity, patronage, and philanthropic action.

In general, grantmaking foundations have functioned as funders of operating charities and builders of major institutions (such as universities or museums). More rarely in Canada, they have functioned as partners or as direct agents in social change. In fact, private foundations are not limited to being grantmakers only. They can certainly act responsively, making grants in response to requests. They can also develop and operate their own programs. Or they can pursue a combination of the two strategies. They can also pursue their charitable missions upstream or downstream: upstream, by investing their assets for mission; downstream, by making grants from the return on their investments or spending on their own programs.

Private Foundations in the Canadian Landscape

Organized philanthropy in Canada is still a relatively recent phenomenon. The oldest existing private family foundation in Canada is the J.W. McConnell Family Foundation of Montreal, which was established as a trust in 1937. Up to the end of the Second World War, the charitable sector in Canada was supported mainly by religious organizations and by a few private donors (Elson, 2011). While a few private trusts and foundations were created in the early part of the 20th century, mainly to support the development of new civic institutions on a local or national level, the growth of private foundations accelerated only in the latter part of the century. The last 20 years have seen a significant increase in the registration of private foundations, driven by growth in wealth held, inherited, or created by individuals, families, and corporations. Most private foundations in Canada would think of themselves as "family" foundations. It should be noted, however, that corporate foundations registered with the Canada Revenue Agency (CRA) also fall into this category, since their funds come from a single donor (the corporation).

The federal government began registering charities in 1967 and created the separate categories of private and public foundation in 1976. The designation of "private" foundation is made at the time of registration by the Charities Directorate of the CRA. Designation depends on the structure, source of funding, and governance of a foundation. The Income Tax Act differentiates public and private foundations by the issue of control: can the foundation be controlled by a single individual or group of related individuals?

The difference between public and private is that a private foundation is controlled by a single donor or family through a board that is made up of a majority (more than 50%) of directors who do not deal with each other at arm's length. A public foundation is governed by a board that has a majority of directors at arm's length.[4] Examples of public foundations are community foundations or fundraising foundations linked to a specific institution such as a hospital. Most private foundations would call themselves family, independent, or corporate foundations.

There are many provisions against self-dealing in the Income Tax Act, and, in practice, private foundations provide the same annual public reports as do other charities and are subject to all the regulatory constraints of any charity to ensure that charitable funds are being held and disbursed for charitable purposes. The reason that this is important is that, in theory, a foundation controlled by a single individual or set of related individuals can "self-deal" or decide to use the assets of the foundation for private, not public, benefit.

Portrait by the Numbers

Government data on private foundations as a group is available from the 1980s and onward. Over the last two decades, growth in the number of registrations of private foundations has been steady. In 2019, there were 5,976 private foundations, about a thousand more than the 4,982 public foundations (PFC, 2019). Private foundations constitute approximately 7% of all registered charities in Canada. The geographic distribution of private foundations is skewed toward the eastern part of the country, for historical and financial reasons. Two-thirds of private foundations are found in Ontario and Quebec, with almost half of the total based in Ontario, and more specifically in the Toronto metropolitan area.

The shape of the private foundation sector is like that of a pyramid: at the wide base are the many private foundations that are very small (measured by their assets), with endowments generally under $5 million. At the peak are a limited number of very large grantmakers. The top 200 private foundations in 2015 start with a handful with assets over $500 million, and they rapidly decrease in size, down to about $25 million. The remaining almost 5,000 private foundations are all under $25 million (PFC, 2015).

Foundations in Canada, as in the United States, typically have no staff, relying on family or volunteer management, which limits the scope of their activities.

Table 1: Foundation Asset Distribution

Country	**Small <$100,000**	**Medium <$1m**	**Large <$100m**	**Extra-Large >$100m**
Canada (% of total number of foundations) ($CDN)	27.3	46.0	26.2	0.5
US (% of total number of foundations) ($US)	21.8	37	40	1.2

(Source: Elson, Fontan, Lefèvre, & Stauch, 2018: 23)

In 2019, private foundations collectively held approximately $50 billion in assets and gave $2.5 billion in gifts to charities (PFC, 2019). This compares to about $4.2 billion given by public foundations (including many institutional fundraising foundations) to charities. Many of the larger private foundations also disburse on their own charitable activities and programs, including staff salaries, conference and event convening, prizes, publications, evaluation activities, consulting, and other activities that they undertake in pursuit of their charitable purposes.

CRA data provides information on the names of foundation grantees from which one can extrapolate areas of funding interest.[5] Based on these data, we can infer that education is the single largest area of funding interest. The largest amount (by dollar value) of grants made by the larger foundations in the Philanthropic Foundations Canada membership, for example, goes to education, which in practice means that many grants go to universities and colleges, followed by support for health and social services.

Factors Driving Growth of Private Foundations

In the US since the early 2000s, foundations have increased rapidly in number, a growth rate of 25% since 2013 and totalling more than 86,200 in 2015; family foundations grew even faster than the overall growth rate (Foundation Center, 2015). In Canada similarly, the number of foundations has increased rapidly since the beginning of the 2000s, with an overall growth rate of 18% (PFC, 2019). The number of private foundations has increased at a faster rate (26%) than the number of public foundations (8%). How to explain this strong growth of the last two decades?

The growth of private foundations does not seem to be directly related to gaps in government funding or lack of social programs.[6] Large American foundations are certainly visible and active in critical social sectors such as education and health and may appear to be filling public funding gaps in these areas because of their visibility. But in Canada, private foundations are typically much less prominent, although patterns vary across the country, and the sector overall is becoming more active, as more funds become available through grants. Canadian foundations generally are not active internationally, in contrast to the larger American foundations.

The Canadian private foundation sector is nevertheless growing and becoming more ambitious in its funding. Three elements seem to be driving the development of private foundations in Canada.

Demography and Wealth Transfer

Private foundations are often created by families. The rise of the large millennial generation and its entry into the world of social purpose is shifting the field. Creators of private foundations who come from earlier generations approached philanthropy more conservatively as an act of benevolence or charity. For the millennial generation, it is much more about having impact on the complex problems that face the world. The young look for more engagement in active philanthropy. Private foundations, especially those governed by families, offer young people an opportunity to engage in philanthropy relatively early in their lives. At the same time, the older baby boomer generation is retiring, with wealth that is inherited or generated through business. Various estimates suggest that close to $1 trillion will be inherited by a younger generation over the next 20 years as the baby boom generation passes on (BMO Wealth Institute, n.d.). At least a portion of this will go to philanthropy. Baby boomer grandparents looking for ways to engage with their younger family members may well turn to the family foundation vehicle for this purpose.

Diversity

Canada has a much more diverse and urbanized population than it did 25 years ago. How does this potentially affect private philanthropy? It brings fresh players and new money to the table and new practitioners to the field. It also fosters an interest in addressing more complex and globally linked social challenges such as environmentally sustainable growth, poverty reduction, refugee and migrant settlement, and social exclusion. While information on philanthropic giving by newer immigrants in Canada remains limited, and is certainly an open field for more research, it seems likely that as wealth grows in these communities, philanthropy will also grow. As Krishan Mehta and Patrick Johnston (2011) indicate, "the role of immigrant communities in civic life and philanthropy has the potential to become one of Canada's enduring symbols, especially since concepts of giving are imbedded in so many different cultural practices. In other words, philanthropy is not only a marker of citizenship but also a unifying force that binds together people of diverse backgrounds." At least some of this philanthropy will be channelled through a private foundation or donor-advised fund (DAF).

Potential for Social Impact

Private foundations as institutional structures have several advantages for donors interested in social impact: they can take on risk and invest in the untried, they can make long-term (multiyear) funding commitments, and they can collaborate and leverage their forces either through formalized partnerships or through more informal collective work. The foundation itself can act as an institutional base for capturing learning and creating knowledge to share in the community. The foundation can also make strategic investments in the capacity of community partners to plan, implement, and obtain feedback.[7] Some Canadian private foundations are already acting as catalysts for social change and are grappling with the implications of this more active role, as described in the last section of the chapter.

Private Philanthropy in Canada: Growing Formalization and Activism

Over the last three decades, the Canadian private foundation sector has been given further structure and depth through the creation of infrastructure organizations, more professionalization through education and attention by academic researchers, and more inter-foundation collaborative activities. These structuring developments have contributed to the growth of a more activist private foundation sector.

Two umbrella organizations have supported the growth of an enabling environment for private philanthropy, the first being the Canadian Centre for Philanthropy (now Imagine Canada), created in 1981, and most importantly Philanthropic Foundations Canada (PFC), which was created in 1999. The PFC network included 132 members in 2019. Its mission is to build awareness of the work of organized philanthropy in Canada and its contribution to the well-being of Canadians: "we seek to support our members and organized philanthropy by encouraging public policies that sustain the sector, by increasing awareness of philanthropy's contribution to the well-being of Canadians, and by providing opportunities for funders to learn from each other."

The foundation sector is slowly becoming more recognized as a field of study in the academic milieu in Canada. Initially focused more on philanthropy from a charity or donor perspective, universities in Canada began to offer centres of study and certification for professionals in fundraising or education for donors within business education programs. In British Columbia, for example, UBC's Centre for Business Ethics houses the Sauder Philanthropy Program, which runs a speakers' series. In Quebec, at Université Laval, the Institut Mallet was created in 2011, and in 2009, the Université de Montréal created a certificate program for philanthropic management. In Ontario in 2013, Carleton University launched the first Master's and Diploma in Philanthropy and Nonprofit Leadership. The same year, the Montreal Research Laboratory on Canadian Philanthropy (PhiLab) began its work at the Université du Québec à Montréal (UQAM), specializing in studies of private and public grantmaking foundations.

In the last 15 years, private foundations have entered into more collaborations, whether formal or informal, to combine resources for greater effectiveness (Pole, 2016; Glass, 2016; Pole & Fontan, 2017). In general, these collaborations are begun to facilitate information exchange on what works in practice. They also promote data sharing or knowledge transfer among foundation staff to promote exchanges of expertise. Some of these collaborations can lead to pooling of resources, including agreement on co-financing and joint evaluations of projects. Some collaborations also enable advocacy or lobbying, knowledge mobilization, or sharing of research findings. Knowledge mobilization can take the form of joint studies, webinars, workshops, forums, or conferences, notably the annual PFC conference.

These can be national collaborations, but most often they occur at a local, regional, or provincial level. This collaborative action has resulted in some more formal structures, such as the Canadian Environmental Grantmakers' Network (CEGN), or co-investment groups such as the Collective Impact Project in Montreal, or policy joint ventures such as the foundation co-funded Ecofiscal Commission, or joint policy advocacy groups such as the Early Child Development Funders Working Group. There are several informal networks of private foundations that promote data- and information-sharing on areas of mutual funding interest or on the landscape of funders working in a particular area. These networks also connect foundations that might be working in parallel so that they can share practice and even consider sharing or pooling funding.

Ad hoc working groups of funders have developed more formal collaborations with targeted communities. One such working group developed after a group of funders gathered during a 2007 conference, organized by PFC, to discuss funding in Indigenous communities. This informal talk led to the formation of The Circle on Philanthropy and Aboriginal Peoples in Canada,[8] which was formally incorporated in 2011 and has quickly expanded to include not just funders, but also national and community organizations. A key purpose of The Circle is to change the way philanthropy is done, from a transaction to a relationship. "Our Indigenous communities are not charity cases, nor is philanthropy a new concept, though the word itself may not be familiar. Philanthropy, in the sense of caring for our fellow human beings, is a deeply held principle of Aboriginal peoples" (Glass, 2016: 13).

In Ontario, three private foundations came together in 2015 to create a collaborative working space shared with umbrella organizations and nonprofit networks. This project, Foundation House, brings together the three foundations and several other organizations in a shared office and meeting space in downtown Toronto. Drawing on the many excellent examples of shared work environments, Foundation House is both a workspace and an innovative convening hub for Canada's philanthropic and not-for-profit community.

In 2015, a group of private and public foundations based in Quebec took a public position on issues of social inequality and the fiscal approach of the provincial government: the Collectif québécois des fondations sur les inégalités sociales published a letter in *Le Devoir* that criticized the austerity measures adopted by the then-Liberal government. This collaboration was intended to provoke a debate among Quebec public policy-makers on the possible negative effects of fiscal austerity on social inequality.

Other private foundations work together with partners or other organizations to bring about systemic changes, not only at national or provincial levels, but locally. For example, working at a metropolitan level, the Metcalf Foundation of Toronto has developed a program called Inclusive Local Economies, which focuses on generating economic opportunities for low-income people. To increase its impact, the Metcalf Foundation advocated with partners for policy and zoning changes that permit small business activities within residential areas and to shed light on the administrative barriers to employment and entrepreneurship faced by welfare recipients. In another example, Metcalf (along with the Atkinson Foundation) is one of the key funders of the Toronto Community Benefits Network, a partnership of community and labour organizations that focuses on establishing community benefit agreements with developers of major infrastructure projects, ensuring that there is local hiring for construction in a manner that prioritizes youth and members of marginalized communities.

The examples listed above demonstrate the possibilities and initiatives being pursued by many private foundations today in collaboration with each other and with community and government partners. Nevertheless, many collaborative initiatives remain poorly funded and thinly staffed. These collaborations tend to be informal and are more likely to be discontinued and not to lead to more institutionalized philanthropic infrastructure. This remains a vulnerability of the Canadian private foundation sector, in which relatively few funders are committed to ongoing support for the building of their own infrastructure.

Trends for Private Philanthropy in Canada

As private foundations grow in number and begin to work together more often to increase their impact and effectiveness, both internal and external questions are coming to the fore. The engaging of full-time staff by many foundations is translating into a greater professionalization of philanthropic work. Professional staff bring a focus on goals, strategies, skills development, and performance measurement, along with a capacity to work with partners and engage more deeply in programs. But do foundations have capacity and intention to support their own organizational development? At the same time, if private foundations are becoming more visible as their work becomes more professionalized and ambitious, how are they to address external questions about the need for public accountability and transparency, and more fundamentally, about their legitimacy as funders of social change?

Foundations are playing roles now that reach beyond grantmaker. They can be investors, convenors, capacity builders, translators, influencers, and advocates. These roles are played in more emergent contexts, which implies that strategies will be more fluid and adaptable. Whether private foundations choose to function primarily as arm's-length grantmakers or more as managers of their own programs, and regardless of the number of employees that they engage, they must consider important questions – both internal to their organization and external in relation to their activities. Internally, they must reflect on how to organize themselves to deploy their human and financial capital more effectively, to learn more quickly from their interventions, and to become more transparent in their choices and decisions. Externally, they are faced with the question of creating trusting relations with the partners and beneficiaries with whom they work. They must also think about how to demonstrate public accountability to support their legitimacy as intervenors in the public interest.

It is not easy or even sometimes possible to make generalized statements about how Canadian private foundations are answering these questions since, even if they share an organizational form, they are heterogeneous as to mission, strategies, and styles. Nevertheless, some observations can be made based on evidence from those foundations that are sharing public information.

Internal Issues

- On the granting side, there is increasing demand and possibly more funder effort to provide general operating or unrestricted support, as many community organizations try to move away from the more typical program- or project-funding requests. Foundations are asking how this type of support can be assessed and outcomes reported.
- On the investment side, there is slowly growing interest in deploying more assets through impact investing, but questions remain about how to overcome perceptions of risk. As well, there is still limited availability of impact investment products in the market, although new social and community bond opportunities are coming onstream, and the federal government is moving forward with a social finance strategy. Foundations are asking themselves how to think through and create impact investing strategies and policies.
- As some foundations choose to run their own programs, they are realizing the challenges of lack of staff capacity. More hands-on strategies require more people. And transitions to larger staff with new skills are challenging. For family foundations, this can also cause tensions – do the donor families continue to make all the decisions, or do employees increasingly stand in?
- Foundation leaders are experiencing pressures on their time and energy. As the pace of external change increases, the speed of decision-making and the processes of foundation boards can feel too slow. Leaders are asking themselves how to align their foundation's people, processes, and assets with the foundation's mission more effectively.
- Foundation leaders and staff are also asking themselves more questions about what targets to set and measure, and what kinds of indicators to use to track progress with their grantees or partners. This is a challenge across the charitable sector, and funders are not exempt.
- A related question is how to learn from the work, both through the data collected and from reflections on the work done, either by the grantees or by the foundations or both together.

External Issues

- As some foundations consider systems change, they inevitably face questions about how best to move a system incrementally in a different direction. Working alone is not an option. So how best to work with others and how to choose those partners?
- Many of the organizations that foundations work with are inherently fragile and under-resourced. Foundations have to ask themselves whether there is a way to reduce this fragility or, conversely, not to add to it with their own processes and requirements. The question of how to build trust in these situations is especially important.
- A significant question when foundations are working more visibly and ambitiously in the public domain is how to claim credibility and legitimacy, particularly if the foundation chooses to support policy change advocacy.
- Finally, a question that has both internal and external dimensions is how to open up a private foundation's perspectives and decision-making and engage the views and voices of those who are "beneficiaries." More shared decision-making would help to build the trust and legitimacy referenced earlier. But these more open decision-making processes are also challenging to staff and organize. How to do so well? There are few case studies on how private foundations in Canada have opened to public involvement, although this is likely to come.[9]

Conclusion: The Future for Canadian Private Foundations

Private philanthropy in Canada is slowly moving beyond historical traditions of benevolent charity and civic institution-building toward a practice that is more formalized, professionalized, and strategic. While most foundations remain largely unstaffed and small, a few have become more strategic and professionalized, and some are being led by donors interested in strategic or systems-level change. For these foundations, there is heightened awareness that foundations act in an *ecosystem* of funders and partners, not just as individual grantmakers and grantees. As foundations become more organized, the importance of being aware of the landscape and operating context will increase correspondingly. This may also facilitate more collaborative action.

As foundations become more ambitious in their social-change goals, they are recognizing the challenge posed by power differences between themselves and their grantees and partners. To overcome this difference, foundations are thinking about how to get closer to community and to listen more effectively. This will inevitably lead to more openness. At the same time, there is value in a private funder balancing proximity with distance. It can be important to retain the credibility of being "outside the issue" and to keep focus on the value of working nationally or across a system to bring about change.

It is likely that as more private foundations in Canada start to act as change agents in the public space, there will be questions raised about their accountability and "social licence to operate." This licence is determined not simply by who you are or are not, but is derived from trust, presence, transparency of communication, and open sharing of reflections and feedback. Many foundations are now exploring or openly sharing their experiences with trying to build trust through transparency and listening.

In the foundation community itself, there are moves toward more transparency and public communication. For community organizations and would-be foundation partners, knowing the goals and strategies of a foundation is key to a successful approach. Many charities have had difficulty in finding this information. Indeed, even general information on which foundations fund in what areas is not easy to access. But the situation is evolving toward more open data. Promisingly, digitization and the increasing use of websites and social media have accelerated research into patterns of foundation granting, and the location, size, and interests of grantmakers. It is becoming somewhat easier for donors and charities to become informed about private foundations, and for foundations to understand more about their own funding patterns and those of others.[10] Yet there is some distance to go in making the use of websites as information tools a standard practice among foundations, even among larger foundations. As in the US, Canadian foundations are still somewhat reluctant to reveal themselves and to tell their own stories.

The developing infrastructure of private philanthropy, with associations such as PFC and the more formalized funder affinity groups, has played a role in helping foundations learn more about each others' fields of interest and in producing and disseminating information about Canadian foundations. PFC's continuing work on data and narrative,[11] combined with the significant investment in Canadian university-based research that may take place in the next few years, and the explosion of digital communications, should lead to more public recognition of the importance of the private foundation sector.

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Notes

[1] For an introduction to the history of philanthropic practices, see Chapter 1 in Reich (2018). On the multidefinition of philanthropy, see Lambelet (2017).

[2] It is difficult to establish organizational genealogies. If Roman institutions have the appearance of modern institutional forms of philanthropy, the connection remains tenuous and should be interpreted with caution.

[3] Complementing the work of Anheier, Jung, Harrow, and Leat (2018) propose an integrating taxonomy of categories and typologies used in international articles to define the concept of philanthropic foundation. This allows them to propose a definitional framework that highlights three conceptual categories, five organizational forms, and five strategic dimensions.

[4] See the CRA definition of types of registered charities.

[5] Detailed data on the purposes of grants and descriptions of fields of funding interest are not readily available. The information from the large CRA database, and the searchable digital directories based on this data such as Grant Connect, Fundtracker, and other commercial directories, is still quite limited. Data can be displayed only on dollar amounts of grants and names of grantees. This is a gap that continues to make it difficult for charities and foundations to work with each other more easily and efficiently.

[6] For example, Mosley and Galaskiewicz (2014) conclude that "Longitudinal data on grants made by more than 1000 U.S. foundations during the welfare reform era of 1993–2001 show that during this time foundation grants were not responsive to population need; grants to safety net and social service programs did not increase. Large foundations and independent foundations focused on social innovation by funding research and workforce development and giving more in states pursuing policy innovation."

[7] For example, the Montreal-based J.W. McConnell Foundation and partners established Innoweave "to support Canadian non-profits and charities by being more impact-oriented and continuously innovative. By creating new models and trying new approaches, social sector organizations can achieve even greater results for the people they serve and create a culture of large-scale change and lasting social innovation."

[8] As stated on its website, "The Circle on Philanthropy and Aboriginal Peoples in Canada is an open network to promote giving, sharing, and philanthropy in Aboriginal communities across the country. We connect with and support the empowerment of First Nations, Inuit and Métis nations, communities, and individuals in building a stronger, healthier future." http://www.philanthropyandaboriginalpeoples.ca/ See also the chapter by Shereen Munshi and Elisa Levi.

[9] For a 2018 example of such consultation, see the efforts of the Lucie et André Chagnon Foundation to consult with communities in Quebec on its new directions.

[10] See Effective Giving: Using Data to Inform Philanthropy, one in a series of issue briefs on using data in philanthropy produced by PFC and Powered by Data in 2018.

[11] For example, see Philanthropy in Action, a website created by PFC that features stories about foundation role and impact: www.philanthropyinaction.ca.

Biography

Jean-Marc Fontan, Université du Québec à Montréal

Jean-Marc Fontan, PhD, is professor of sociology at Université du Québec à Montréal (UQAM). His fields of specialization are economic sociology, local development, social innovation, partnership research on poverty, social mobilization, and philanthropy.

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Hilary Pearson is the former president of Philanthropic Foundations Canada, the national member network for grantmaking foundations in Canada. After stepping down from PFC in 2019, she became co-chair of the federal Advisory Committee on the Charitable Sector and continues to serve on several national nonprofit boards. She is an active observer and commentator on philanthropic trends and foundation practices in Canada and elsewhere, contributing frequently to The Philanthropist, appearing at conferences, and speaking on webinars about philanthropy, public policy, and governance in the nonprofit sector.

The Funding Environment

Chapter 13

Canada's United Way Centraide as a Community Impact Funder: A Reinvention or a Failed Endeavour?

Iryna Khovrenkov
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The United Way is a unique form of organized philanthropy that connects individuals, corporations, and government agencies with the community. The organization's logo, a helping hand cradling humankind under the rainbow, has become a highly recognizable symbol of hope.

While United Way of Canada was officially established only in 1973, it evolved from Charity Organization Societies and Community Chest organizations, which, beginning in the late 1800s, created the model for the United Way's federated fundraising approach, in which a portfolio of charities benefits from a central fund. Through successful workplace campaigns and dedicated payroll contributions, the United Way system has gained recognition as a leading fundraiser, and with acquired funds distributed to United Way member agencies mostly as multiyear operational grants, many local charities sought to become recipients of such funding.

By the mid-1990s, donors were expressing a preference for choosing the charities they wished to contribute to. United Ways adapted to allow donors to specify where their money went, but this inevitably diverted donations from the United Way itself, leading to declines in its revenue stream. Once a dominant aid to individual giving, United Ways were now challenged by expanded donor choice; at the same time, fewer companies were able to administer workplace campaigns because of overall corporate downsizing. These challenges required United Way to transform from a fundraising organization to one with a new vision. Following the lead of United Way International, United Way of Canada adopted the Community Impact mission in the early 2000s as the "nationwide strategy for program allocations and fundraising" (Cohen, 2007: 3). This rebranding signified a shift to funding programs with measurable outcomes rather than providing guaranteed funding to historic member agencies. Over the next decade, all Canadian United Ways/Centraides underwent the transition, hopeful that after it was completed, they and their affiliates would be on an upward trajectory.[1]

Despite the changes in focus, news headlines about Canadian United Ways have been grim, reporting the financial hardships of these organizations. Several United Ways have responded to the challenging circumstances by amalgamating to try to preserve their financial viability, two examples being the Toronto-York-Peel and Hamilton-Halton mergers in Eastern Ontario. Others, like Thompson-Nicola-Cariboo United Way in British Columbia and Halifax United Way in Nova Scotia, have dipped into their savings in their struggle to survive. And some, such as Saskatchewan's Weyburn and Swift Current offices, have ceased operations. The key reason cited by these and other Canadian offices for closing is declining donations. Financial data from annual tax returns confirm that between 2008 and 2014, private donations to United Ways fell by 14%.

Implications of the downward trend in private donations are twofold. First, this decline would significantly impact operations because private donations comprise more than 70% of United Way's total revenues. And second, the potential need to cut funding to member agencies could provoke its own set of problems for these agencies, from program maintenance to overall sustainability. For example, Halifax's Ward 5 Neighborhood Centre lost nearly 20% of its annual funding from Halifax United Way, leaving the centre questioning its future (Frisko, 2019).

These developments point to troubling questions about the future of United Ways. Does the increasing difficulty in attracting donations suggest that United Ways are losing their value as intermediaries? Are United Ways succeeding in shifting their culture to community impact and successfully reinventing themselves? If so, to what degree and how has the shift in focus affected United Ways' historic members? Have the efforts to reimagine their focus been in vain?

The purpose of this chapter is to assess these suppositions by examining United Way's history and assessing its financial trends. The analysis is structured in such a way as to capture two key developments: the organization's emergence in Canada and the transformation of its funding structures following the adoption of the Community Impact model. More specifically, the first section presents a historical overview of the Canadian United Ways. The second section discusses United Way's shift from a purely fundraising organization to one with a community impact vision. The third section assesses revenue and spending trends over a 15-year timeframe (2000–2014), revealing that United Ways have struggled with attracting individual donations after the transition to the Community Impact model, which ultimately led to stagnation in grants paid to its member charities. The chapter concludes by discussing the future role of United Ways in Canadian philanthropy.

Historical Background: Evolution of Canada's United Ways

Today's United Way has its roots in the late 19th century. While its development in Canada closely followed the evolution of American United Ways in chronology and in the types of predecessors, the process of establishing United Ways in Canada was distinct.

Canada's United Way movement was gradual, as it needed to account for and adjust to the diverse multicultural needs that were unique to Canada. The movement originated in Montreal and Toronto, the two largest cities, and then slowly spread to the rest of Canada – in contrast to the American movement, which began in several smaller cities such as Buffalo, Denver, and Cleveland, and spread quickly to the rest of the United States. In Canada, it was the Second World War and the need for war-relief services that ignited a noticeable appearance of war chests, which became Community Chest organizations in the post-war period (Aghai, 1958). Table 1 summarizes the evolution of United Way in Canada and the United States.

Table 1: Evolution of United Ways in Canada and the United States from 1877 to 1975

Year	Canada	United States
1877		Establishment of the first Charity Organization Society in Buffalo
1887		First fundraising campaign, with 23 participating agencies in Denver, Colorado
1899	Establishment of the first Charity Organization Society in Montreal	
1913		Informal establishment of the first Community Chest in Cleveland, Ohio
1917	Informal establishment of the first Community Chests in Montreal and Toronto (Jewish Philanthropies)	
1922		Cleveland, Ohio's is recognized as the first true Community Chest
1925		240 Community Chests are recorded
1938	9 Community Chests are recorded	
1956	65 Community Chests are recorded	A national organization representing all Community Chests adopts a new name: United Community Funds and Councils of America
1970		A national organization of all chests and councils is restructured and adopts a new name: United Way of America
1973	A formal establishment of the United Way of Canada	
1975	Recognition of bilingualism and an official inclusion of Centraide into the name to form United Way Centraide Canada	

(Source: Author's compilations from Aghai (1958), Brilliant (1990), and Craats (2003).)

The United Way extends back to the original Charity Organization Society, which was established in London, England, in 1869; next came Buffalo, in 1877, and finally Montreal, in 1899 (Aghai, 1958). By cooperating with multiple relief agencies, these Charity Organization Societies made considerable effort to help vulnerable families and people in need, with a specific emphasis on working collaboratively to address social problems. As agencies came together in their vision around welfare relief, this process manifested in the joint financing of welfare services. In 1887, the Charity Organization Society in Denver, Colorado, created its first official fundraising campaign, in which 23 agencies raised $21,700 (Craats, 2003). As predecessors to the United Ways, Charity Organization Societies set the stage for the development of two key principles that carried through to modern United Ways: joint efforts in solving social problems and joint financing of these efforts.

While the Charity Organization Society of Denver's community-wide fundraising campaign in 1887 was created by religiously affiliated community leaders for a charitable purpose, it was carried out without professional staff and with limited business involvement. The latter was considered essential for ensuring a "wiser distribution" of funds, rather than being a simple collecting agency (Brilliant, 1990: 20). In contrast, the emergence of a modified fundraising organization – the Community Chest – was characterized by the presence of business leaders, the support of professional staff, and a commitment to community. The Community Chests based their work on identifying community needs and establishing proper budgetary principles around those needs (Aghai, 1958).

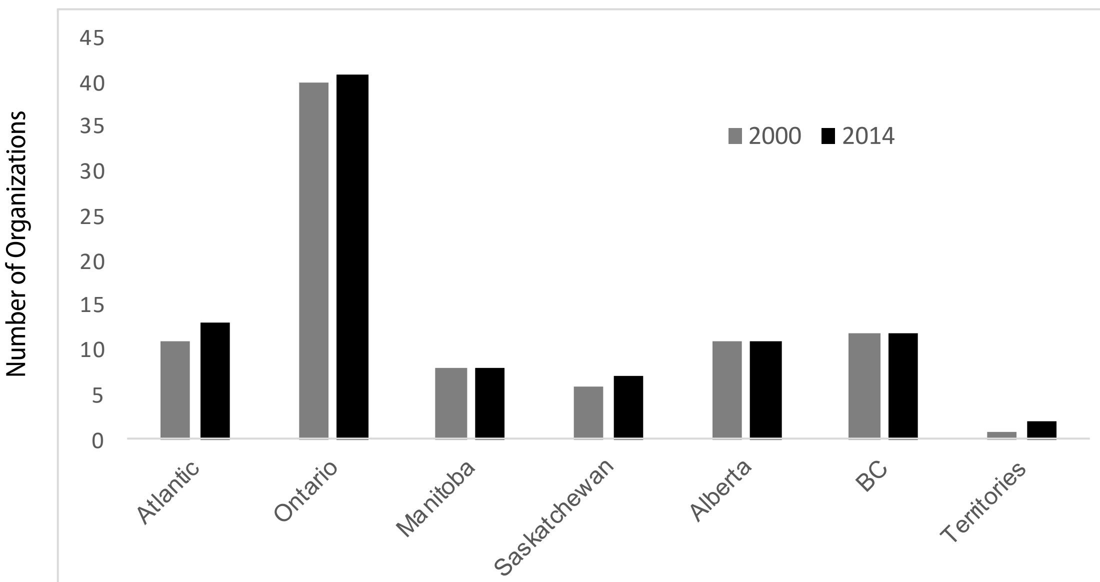
Drawing on the Denver experience, the founders of the first federated fundraising organization, the Cleveland Federation for Charity and Philanthropy, were committed to involving local business leaders and offering "continuity through professional staffing" (Brilliant, 1990: 19). Recognized as the first Community Chest in the United States, this Cleveland organization also formalized the strategy of community fundraising: "It included both business involvement and professional staff as well as the initiation of citizen-informed budgeting to agencies, and was based on the notion of an association of agencies whose main purpose was coordination of charitable efforts" (Brilliant, 1990: 20).

This movement of organized community fundraising made its way to Canada in 1917 with the establishment of the Jewish Philanthropies in Montreal and Toronto. These federations were considered the first informal Community Chests in Canada (Aghai, 1958). While Community Chests spread rapidly in the US over the next few years – 240 by 1925 – growth in Canada was much slower, with only nine Community Chests in 1938.[2] For the longest time, agencies conducted fundraising for social welfare programs on their own, only gradually realizing that doing so was too costly. After the Second World War, with the need to address emerging social issues, the number of Community Chests increased from 36 in 1946 to 65 by 1965, when all provinces, except Newfoundland, reported having them (Aghai, 1958).

While Canada has no record of a national organization representing Community Chests, Community Chests and Councils of America served as the national organization in the US. Created to offer policies and operational direction for local affiliates, there were mixed views about its intentions and control. As a result, the national agency underwent several restructurings and in 1956 was renamed United Community Funds and Councils of America (UCFCA). Reorganizations continued until 1970, when the name United Way of America replaced UCFCA. How Community Chests converted to United Ways in Canada is less clear. Some were closed, and United Ways opened in their place. Again, following developments in the US, the United Way of Canada was formally established in 1973. In 1975, the French version of "United Way," "Centraide," was incorporated into the name, and the organization became United Way Centraide Canada, with the duality recognizing Canada's bilingual culture.

All Canadian United Ways are registered charities that file individual annual tax returns with the Canada Revenue Agency (CRA). Registered charities in Canada are classified as charitable organizations or (public or private) charitable foundations.[3] In 2014, 77% of United Ways were designated as public foundations, while the remaining 23% were designated as charitable organizations. CRA also classifies registered charities according to their charitable purpose or mission. Except for two organizations formally classified as serving the community, all other United Way organizations are categorized as supporting welfare causes.

Figure 1: Provincial Distribution of United Way Organizations, 2000 and 2014



Notes: Atlantic provinces comprise Nova Scotia, New Brunswick, Newfoundland and Labrador, and Prince Edward Island.

(Source: Author's calculations. Canada Revenue Agency and Public Economics Data Analysis Laboratory, Department of Economics, McMaster University.)

Most of the growth in United Way organizations occurred in the late 1990s and early 2000s. By 2005, the number of United Way organizations had increased by 16%, or 13 organizations over the decade. During this time, more United Ways were established in smaller or remote communities such as Bridgewater, Nova Scotia, with a population of 8,000 people. Between 2005 and 2014, there were 94 self-governing United Way organizations operating in Canada. Once more recent data becomes available, however, this number will drop, to reflect the two recent mergers in eastern Ontario and the two Saskatchewan United Ways that closed down in December 2018.

United Way Rebranding: From Fundraising to Community Impact

Umbrella Fundraising Focus

From its inception, United Way Centraide Canada operated mainly as an umbrella fundraising body, and local United Ways followed suit. In the early days, United Ways fundraised under the slogan "One gift for all" (Levens, 2006). The purpose of such campaigns was to raise funds for member agencies so they could serve their communities. While information about which organizations have been United Way member agencies is readily available, there is little about *how* these organizations became members. In the past, the United Way was tied to a group of well-established agencies, such as the YMCA, the Red Cross, and the Boy and Girl Scouts, and it was difficult for other agencies to be admitted to "member" status (Brilliant, 1990: 77). One can infer that historically, United Ways not only recruited organizations into their membership pools, but did so carefully and perhaps strategically, ensuring that these member organizations had their own strong national representation as federations with many affiliates spread across the country.

Becoming a member agency and receiving United Way funding meant financial stability and external legitimacy for local charities (Paarlberg & Meinhold, 2012; Grønbjerg et al., 1996). United Ways created a reputation of being the largest funder of human service organizations in their locales (Paarlberg & Moulick, 2017). They provided continuous multiyear funding to member agencies (designated as operational or base funding), whereas most other funders (community or public foundations) offered multiyear funding occasionally and selectively (Grønbjerg et al., 2000; Akingbola, 2004). Given this benefit of United Way support, more agencies sought to become members. In an attempt to mitigate the pressures from a growing number of interested agencies, United Ways adopted a rational, needs-based allocation framework that prioritized the needs of the member organizations. This process of prioritizing the needs of some agencies over others caused some to question remaining with the United Way (Levens, 2006). Once an organization became a member, however, it generally had full autonomy as to how the United Way funds were allocated. This led to criticism, in Canada and the US, that the focus was on meeting the needs of member agencies rather than on solving "collective priorities of the community" (Paarlberg & Moulick, 2017: 358). United Ways were also criticized for being elitist and exclusive, preserving long-term relationships with traditional charities rather than reaching out to newer groups with a more inclusive view of community (Paarlberg & Meinhold, 2012; Paarlberg & Moulick, 2017).

The mindset of United Way donors was also changing. United Way raised money primarily through workplace campaigns, which were popular and highly successful. Many employees, especially in large, unionized workplaces, made use of payroll deductions as a simple way to contribute to United Ways (Brilliant, 1990). Contributions were then distributed by United Ways to their member agencies. By the mid-1990s, however, American donors began requesting some degree of choice in identifying worthy causes, instead of delegating this responsibility solely to United Ways. This shift was motivated by other workplace programs in the United States, such as the Combined Federal Campaign, that offered choices to their donors (Cords et al., 1999).

An appetite for more choice was not surprising, since member agencies' program menus had remained virtually unchanged throughout the years (Levens, 2006).

This change in donor preferences regarding United Way contributions made its way to Canada by the end of the 1990s. Canadian donors were also advocating for choice in their support of charity programs, as this would lead to greater accountability for their workplace donations (Cutt & Murray, 2000).

While it was important to meet donor demands, United Ways were concerned about their revenue streams and their ability to fulfill their commitments to their member agencies, because with donor choice in place, the system of dedicated payroll deductions was threatened. Even though designated dollars were technically counted as part of the United Way total, they could no longer be allocated by United Way. These developments led to increased criticism that the United Way had lost its reputation as a successful fundraising intermediary, which ultimately required the organization to consider systemic change.

Community Impact Focus

The need for change within the American United Way system had been brewing since the mid-1990s. Individual giving habits were shifting toward more choice and away from dedicated payroll deductions. Corporate downsizing in the United States at this time meant fewer companies were able to administer workplace giving. Americans were also affected by the news that criminal charges had been laid against former United Way president William Aramony, for fraud and financial mismanagement of United Way monies (Johnston, 1997). Public trust was undermined, donations took a downward spiral, and local United Way chapters could no longer meet their funding commitments to member agencies. A fundamental change was required if the United Way wanted to remain operational (Johnston, 1997).

In 2001, United Way of America's incoming CEO and president, Brian Gallagher, rolled out a new nationwide strategy – Community Impact – in an attempt to mend the organization and reestablish its relevance. The primary focus of this strategy would be on funding programs or United Way priorities rather than specific member agencies (Paarlberg & Meinhold, 2012). Funded agencies were now called "partners" rather than "members," reflecting that under the Community Impact model they were to be regarded as active participants in effecting change.

Table 2 contrasts key elements of the United Way's traditional fundraising model with those of the Community Impact model. The underlying principles of the new paradigm are to identify and address "core community problems and mak[e] funding decisions based on grantees' abilities to affect such issue areas" (Paarlberg & Meinhold, 2012: 827). More specifically, United Way organizations commit to being conveners in their communities by mobilizing numerous partners to work together to design solutions to complex issues. The goal is to bring about change at the systems level.

Table 2: Comparison of United Way's Fundraising Model and Community Impact Model

United Way's Traditional Fundraising Model	United Way's Community Impact Model
Efficient fundraiser	Convener and leader in the community
Focus on partner agency needs and priorities	Focus on core community issues
Effective distributor of funds	Competitive granting, outcome-based funding
Workplace giving	Diversified fundraising
Growth in annual campaign	Change in community conditions (lives impacted vs. dollars raised)

(Source: Table adopted from Paarlberg & Meinhold (2012), with additions derived from conversations with Canadian United Way representatives.)

Canadian United Ways shared similar experiences regarding shifts in donor preferences and declining donations. The adoption of the Community Impact model by American United Ways set the stage for Canada's United Ways to eventually make the leap and adopt the promising initiative. In 2001, United Way Centraide Canada launched a strategic alignment initiative, officially endorsed at the 2003 annual general meeting. For the first time, all of Canada's United Way branches adopted a common mission, referred to as the "Community Impact mission," and identified three priority areas: from poverty to possibility, strong communities, and all that kids can be. Within the three focus areas, however, local United Ways are free to establish their own signature initiatives.

Adopting a common mission, while simple in principle, came with significant challenges. Without strong direction or specific instructions from the national office, local United Ways were paving their own routes through the transition. As a result, some were too quick to adopt changes, while others took a long time. As indicated in informal conversations with United Way representatives, some branches did not even begin their transition until after 2010. With such idiosyncrasy in the adoption of the new strategy, how did this shift affect the allocation of funds to United Way member agencies?

As noted in Table 2, a switch to the new model in theory meant that a United Way would allocate funds on a competitive basis, through open grant calls, and to those charities able to demonstrate program outcomes. How this occurred in practice has not been explicitly documented and must be inferred from informal conversations with Canadian United Way and agency representatives. In the US, the old model continued to prevail for some United Ways, which chose to make no changes to their funding allocations and maintained existing relationships with their funded agencies (Paarlberg & Meinhold, 2012). Others chose to remove low-performing partners and redistribute funding across a smaller number of member organizations. Only a small number quickly and fully adopted the competitive approach. It appears that implementation of the Community Impact model was as much of a hybrid in Canada as it was in the US. Either abruptly or over a course of time, some United Way member agencies saw their core funding cut, which led to significant financial disruptions. Despite the claims of community impact, however, it seems that many United Way leaders still favour preserving traditional funding approaches and protecting valuable community relationships.

Assessing Donations and Funding Trends of Canadian United Ways

Considering the ongoing challenges faced by Canadian United Ways in attracting donations and distributing their funds, this section specifically focuses on the assessment of private giving and grant-making trends of local United Ways. This assessment draws on detailed financial data gathered from annual information returns filed by United Ways with the CRA between 2000 and 2014.

Table 3 presents United Ways' key financial measures, which include total asset holdings, total revenues, spending on grants to charities and on own charitable programs, and non-disbursement expenses such as advertising costs, licences, bank charges, and other professional fees. To allow comparisons across the years, all measures have been converted to constant 2010 dollars.

Table 3: Summary Statistics of Key Financial Measures for Canada's United Ways

	Mean	Standard Deviation	Maximum
	$2010, millions		
Total assets	5.3	16.0	151.0
Total revenues	4.7	15.1	150.0
Tax-receipted donations	3.4	11.3	122.0
Revenues from fundraising	0.4	3.7	68.7
Government grants	0.2	1.1	27.8
Disbursement expenditures	3.8	12.4	130.0
Total gifts to charities	3.2	11.3	124.0
Total program spending	0.5	1.2	12.0
Non-disbursement expenditures	0.8	2.0	20.8

Notes: N=1,389 observations or 94 organizations for the period 2000–2014. Standard deviation is the deviation of the sample. Revenues from fundraising are obtained from fundraising activities (e.g., a gala or run) for which no tax receipts are issued. Non-disbursement expenditures include advertising costs, licences, bank charges, and other professional fees. Only relevant income and expenditure categories are incorporated into the summary table.

(Source: Author's calculations. CRA and Public Economics Data Analysis Laboratory, Department of Economics, McMaster University.)

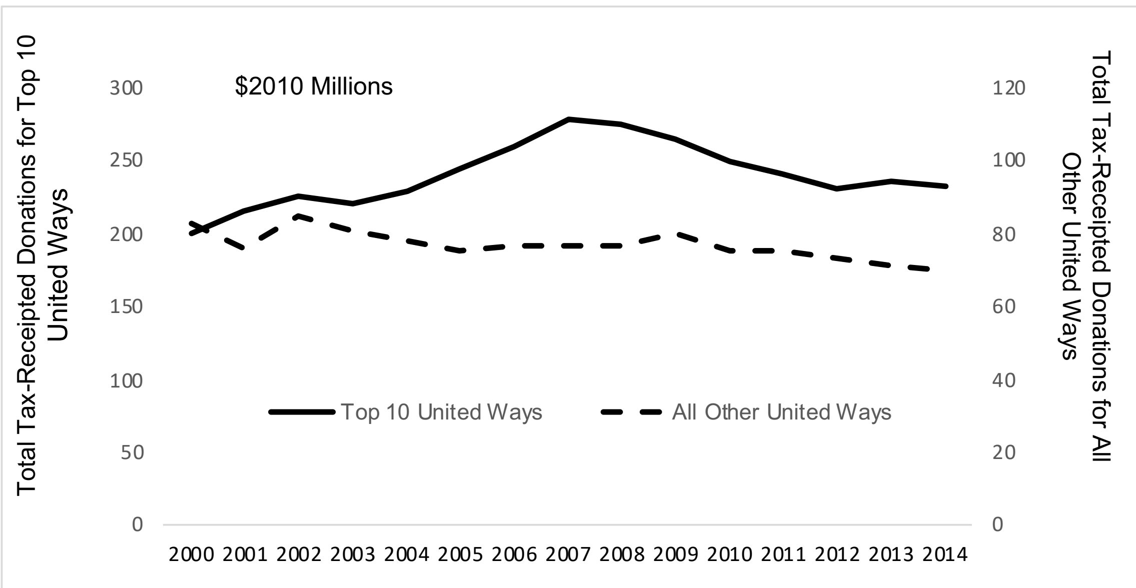
How a Canadian United Way (as a public foundation) operates is distinct from other types of medium-sized public foundations. Khovrenkov (2016) finds that a typical medium-sized public foundation holds significant assets as a result of its initial endowment but raises little in additional revenues. As depicted in Table 3, total assets and total revenues of the United Ways are similar and on average amount to $5.3 and $4.7 million respectively. Another distinction is that tax-receipted donations received by United Ways comprise more than 70% of their total revenues, whereas for the average public foundation, these donations account for only 40% of total revenues. These simple statistics indicate that even a small disruption in individual donations will have a significant effect on United Way operations and their ability to fund programs.

Total disbursements, which include grants to other charities and spending on own charitable programs, are the dominant category of total expenditures across all foundations, including United Ways (Khovrenkov, 2016).[4] On average, United Ways transfer a yearly total of $3.2 million to other registered charities across Canada, which accounts for more than 80% of their total disbursements. Given the extent of their grant-giving, it is not surprising that United Ways are viewed as important funders in their communities (Stone et al., 2001).

Charitable Giving Trends

For an insightful illustration of trends in charitable giving, we examine two groups of United Ways. The first consists of the largest 10 United Ways based on the size of their assets; the second incorporates all other United Ways (84 organizations in 2014). Figure 3 presents total tax-receipted donations for both groups over a 15-year period. For the top 10 United Ways, receipts of private donations first increased, reaching a total high of $278 million in 2007, but then dropped by 17% between 2008 and 2012, with a slight levelling occurring between 2012 and 2014. Smaller United Ways have experienced a consistent decline in private donations since 2002. Underlying these declines are an overall drop in the share of tax filers reporting donations and the negative effects of the 2008 economic downturn (Lasby & Barr, 2018). In addition, such a pronounced and lengthy decline in private giving to United Ways potentially reflects their internal struggles with rebranding, which have manifested in challenges with attracting donations.

Figure 3: Total Tax-Receipted Donations to United Ways, 2000–2014



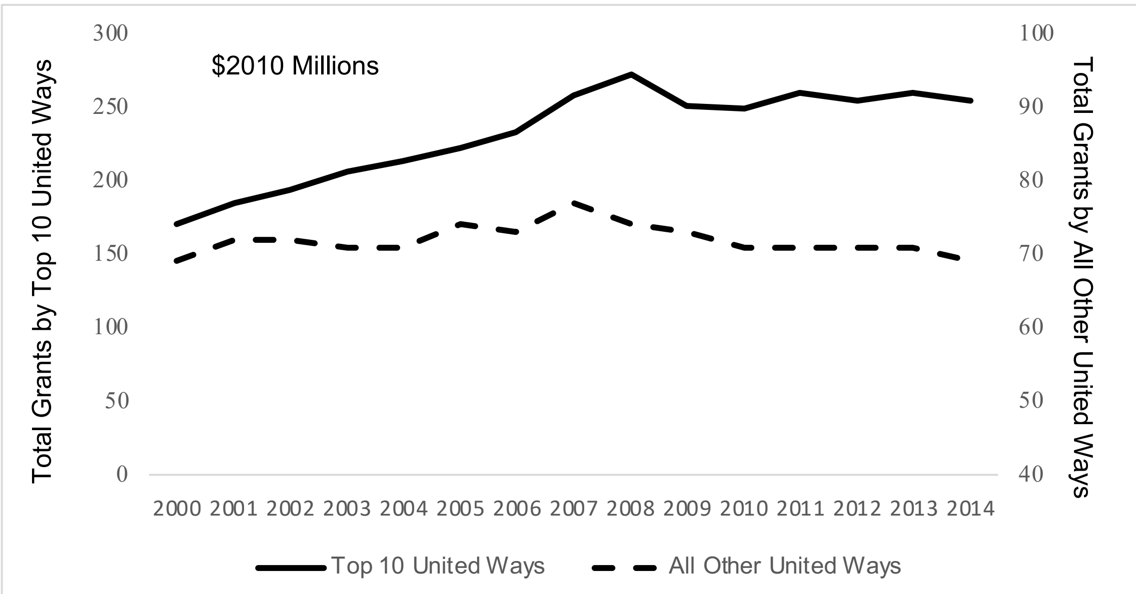
Notes: Total tax-receipted donations for all other United Ways correspond to the secondary axis.

(Source: Canada Revenue Agency and Public Economics Data Analysis Laboratory, Department of Economics, McMaster University.)

Grant-Making Trends

Declines in private donations undoubtedly impact granting abilities, and Figure 4 illustrates that United Ways have experienced such challenges. Similar to the trends in private donations, grants transferred to other charities by the top 10 United Ways rose from 2000 to 2008, peaking at a total of $272 million in 2008. Since then, however, grant-making dropped by 8% and remained stagnant for the rest of the sample period. Grant-making by smaller United Ways is also problematic. Their funding to other charities has remained mostly unchanged over the 15-year period, again reflecting their steadily declining donations.

Figure 4: Total United Way Grants to Other Charities, 2000–2014

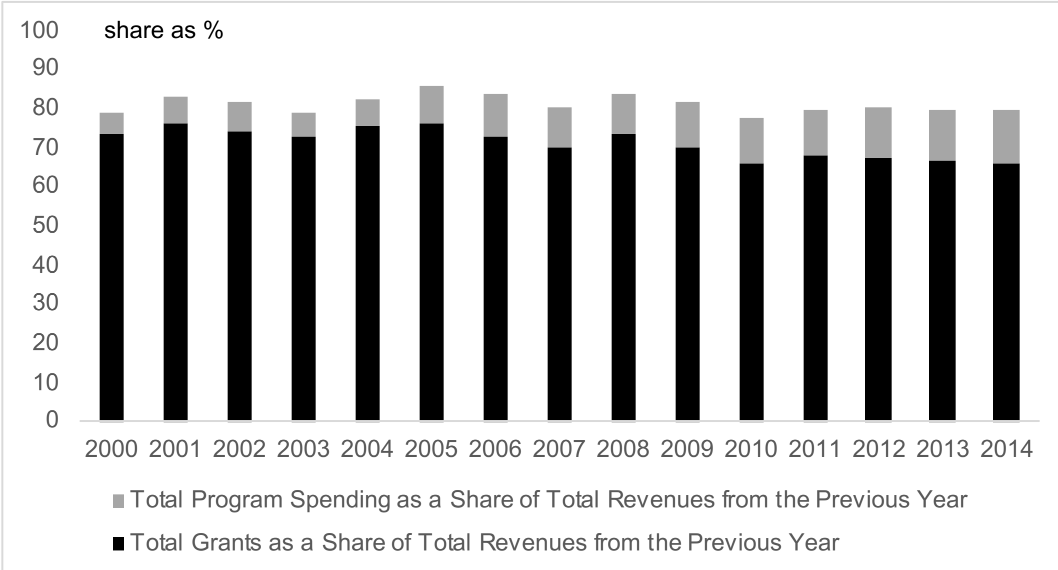


Note: Total grants by all other United Ways correspond to the secondary axis.

(Source: Canada Revenue Agency and Public Economics Data Analysis Laboratory, Department of Economics, McMaster University.)

While grant-making in absolute terms has been stagnant since 2008 for all United Ways, grants as a share of their total revenues from the previous year have declined, most noticeably since 2006, as shown in Figure 5.[5] In 2000, grants given by United Ways accounted for 73% of their total revenues, while this share fell to 66% in 2014. In contrast, United Ways are spending more on in-house programming: the share of revenues devoted to spending on their own charitable programs has increased from 6% in 2000 to 14% in 2014. These changes in spending potentially reflect a shift toward a community impact model of funding, as some United Ways reduced the number of agencies they fund so as to focus on meeting core community needs through program offerings within their own organizations (Paarlberg & Meinhold, 2012).

Figure 5: Grant-Making and Program Spending in Relation to Total Revenues, 2000–2014



(Source: Canada Revenue Agency and Public Economics Data Analysis Laboratory, Department of Economics, McMaster University.)

Some United Ways have noted that they needed to "dip into savings" to continue their funding commitments. While the T3010 tax form does not include a direct measure of savings, it does indicate the amount of cash held by charities. Calabrese (2013) suggests that analysis of operating reserves of nonprofits, especially availability of cash, offers additional insights into their ability to deal with financial vulnerability. He notes that larger amounts of cash can signify that organizations are holding liquid funds in order to meet their missions and commitments. Back-of-envelope calculations suggest that cash holdings of all United Ways have increased throughout the sample, potentially pointing to the importance of continuing their legacy of being a responsible funder, despite the risk of cash depletion. Indeed, they may be in a more precarious position than first appears.

Conclusion

United Ways have been dedicated funders of a wide variety of programs in our communities for the past 40 years. Over this time, they have had to adapt to corporate downsizing and donors wishing to give to charities of their choice. How people give has changed significantly, and traditional fundraising practices ceased to be effective, prompting the biggest change that United Ways experienced to date: implementation of the Community Impact model. Was the rebranding from traditional fundraiser to impact funder a reinvention or a failed endeavour? A general impression is that United Ways are operating under a hybrid design – trying to strike a balance between meeting donor preferences, funding programs based on outcomes, and preserving valuable community relationships. Despite the shift in focus, however, United Way managers continue to grapple with the problem of falling donations.

United Way is one of the largest non-governmental funders of community initiatives, and declines in donations to the organization have important implications for funding allocations. Volatility in United Way funds can undermine the ability of community partners to deliver programs. Also, with a shift to the Community Impact model, where grant competitions are the new norm, community partners may be challenged by no longer having a guaranteed source of income. While some charities manage to innovate and diversify their revenues, smaller organizations will be hit hard by such disruptions, leaving their future financial sustainability in jeopardy.

Because attracting donations is essential to United Ways, they have been active on the policy front and have called on the federal government to adopt policies that would encourage giving. For example, in 2016, on behalf of all branches, United Way Canada made a submission to the Standing Committee on Finance in favour of the "stretch tax credit," which was intended to boost charitable giving by providing more generous credits when donors increased the amounts they gave over previous years (United Way Centraide Canada, 2016). However, no action was undertaken by the federal government regarding this type of credit. In 2018, Jacline Nyman, former president and CEO of United Way Centraide Canada, appeared before the Special Committee on the Charitable Sector in the Senate to request policies for stable funding. So far, these have been only conversations without action. There is potential that United Ways can benefit from the Social Finance Fund, launched in 2019, to which the federal government committed $755 million over 10 years to help charities and other social purpose organizations access financing for projects that will have "a positive social impact" (Canada, 2019: 164).

As United Way campaigns kick off across the country and their banners appear with the well-known logo of a helping hand cradling humankind, we need to ask a serious question about the future of United Ways. Declining donations and the closing of some United Way offices make us wonder if the organization is still an intermediary of value. Or will it become obsolete?

United Ways in Canada are at a crossroads, searching to find a place for themselves in the philanthropic space. Some critics argue that the decline in their prominence as a dominant fundraiser cannot be reversed (Holly, 2018; Cohen, 2007). Others defend United Ways, suggesting that they simply need time to explore their options and come up with innovative solutions. For example, United Way Ottawa is trying a new look in its advertising campaign: instead of displaying dollar amounts as goals, it shows how many lives it is trying to change (Crawford, 2016). Brian Gallagher, now CEO of United Way Worldwide, argues that a larger-scale platform, Salesforce.org Philanthropy Cloud, is the future of United Ways (Gallagher, 2018). Philanthropy Cloud is an online giving platform that strives to connect companies and their employees with the specific needs of communities. Some are skeptical about this approach, highlighting that Philanthropy Cloud is not that different from workplace giving, which has proven ineffective. Time will tell, as United Ways continue to soul-search, but they will need to work hard, or perhaps work differently at convincing their donors.

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Notes

[1] Centraide is an important element of the full United Way title, as it reflects the French language. The chapter will use "United Way" inclusive of Centraide for simplicity of expression.

[2] Community Chests in Canada were also known as welfare funds, community funds, and united funds (Aghai, 1958). The official symbol of Community Chests was the "red feather."

[3] According to the CRA's definitions, charitable foundations primarily raise funds and disburse them to other registered charities, while charitable organizations collect the funds and use them to finance the provision of local goods and services.

[4] Program spending includes spending on day-to-day charitable activities, salaries, staff training, and occupancy costs.

[5] Figure 5 is based on the assumption that revenues obtained in the previous year are spent the following year to better reflect the United Way spending environment. For example, shares in 2000 are calculated by taking total grants made to charities in 2000 and dividing them by total revenues received in 1999. These shares are similar even if one assumes revenues are spent in the same year they are received.

Biography

Iryna Khovrenkov, University of Regina

Dr. Iryna Khovrenkov is an economist with research interests in philanthropic foundations, charitable giving, and social finance. She serves as the co-lead of the SSHRC-funded Western Hub of the Canadian Philanthropy Partnership Research Network. Iryna is associate professor at the Johnson Shoyama Graduate School of Public Policy at the University of Regina, teaching core economics courses, and serves as a program lead of the school's Certificate in Non-Profit Management.

The Funding Environment

Chapter 14

Impact Investing in Canada: Notes from the Field

Karim Harji, University of Oxford
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Impact investing refers to investments made with the intention to achieve a measurable social or environmental impact alongside a financial return to the investor (GIIN, 2018). Impact investments can take a number of forms, including loans for working capital or asset purchases or equity investments for ownership stakes in social enterprises. Unlike grants and contributions or philanthropic gifts, however, they are repayable to investors. Investing for non-financial return is nothing new, and arguably can be traced back to the founding of the modern corporation itself (Bugg-Levine & Emerson, 2011). In Canada, such practices have existed for decades within the credit union, social economy, and community economic development sectors (Harji & Hebb, 2010). The term "impact investing" was formally coined in 2008, signalling the rise of interest on an international scale. Following a significant injection of financial, social, and political capital by the Rockefeller Foundation and other influential actors over the subsequent decade, the term has now entered the vocabulary of mainstream finance, public policy, and philanthropy (Harji & Jackson, 2012).

Impact investing, sometimes called social finance, can be situated within a broader spectrum of approaches that integrate private capital, multi-sector participation, and business-oriented language and strategies. These include "responsible investing," which integrates environmental, social, and governance (ESG) factors in investment decision-making and can include investment practices such as negative and positive screening and shareholder advocacy. Impact investing is a growing phenomenon in Canada, driven by a confluence of factors. The continued reduction of government funding for the nonprofit and charitable sector and a shift away from grants and contributions as a funding method toward fee-for-service contracts (Phillips, 2006; Phillips & Hebb, 2010) – which began in the 1990s and continued through the 2000s – have pushed nonprofits to diversify their income streams. Simultaneously, foundations and other institutions holding endowments and large pools of capital realized that if they could align their missions with their investment policies, they could use all the financial assets at their disposal to help achieve their goals. In recent years, governments and private investors in many countries have recognized the value of stimulating social finance markets so as to inject more private capital to address social needs.

Those in Canada interested in this emerging approach looked to the UK and US for comparable models, programs, and policies. Both were 10 years ahead of Canada in promoting social finance, partly as a result of government regulatory intervention and leadership from the foundation sector, and they could provide valuable lessons on how to advance practice and policy. In late 2010, the Canadian Task Force on Social Finance released a report detailing seven major recommendations that would advance impact investing in our country. Modelled on a similar initiative undertaken a decade earlier in the UK, the recommendations described concrete actions and targets that foundations and endowments, pension funds, government, and the sector itself could undertake.

By 2014, in part spurred on by follow-up work (Task Force, 2011), impact investing increased in Canada. Most of this activity took the form of small pilot projects designed to test the market and early engagement by a diverse range of actors, including credit unions, foundations, social enterprises, and various levels of government (Harji & Reynolds, 2014). While such activity was an important first step, this period can best be described as an uncoordinated marketplace (Freireich & Fulton, 2009). In a 2014 review of impact investing in Canada, we (Harji & Hebb, 2014) recognized this period of iterative experimentation and called for a more deliberate approach to the design, implementation, and evaluation of impact investment policy and practice. Around this time, there was also more deliberate exploration within the policy and political arenas (McColeman, 2015).

In 2017, a new task force commissioned by the federal government was struck, and a year later, the Steering Group on Social Innovation and Social Finance Strategy released its report, which included 12 recommendations to advance social finance in Canada (Steering Group, 2018). Eight years after the original task force report, many of these 2018 recommendations echoed the same calls for action. Specifically, it asked the federal government to "acknowledge the important contribution that charities, non-profits and co-operatives and mutuals make to Canadian society" and called for cross-sectoral collaboration to "breach the perceived walls between the structures and motivations of the charitable and non-profit, private, and public sectors" (Steering Group, 2018: 4). It also identified six critical gaps faced by social purpose organizations that should be addressed and acknowledged that the "journey [to implement the report's recommendations] will be challenging."

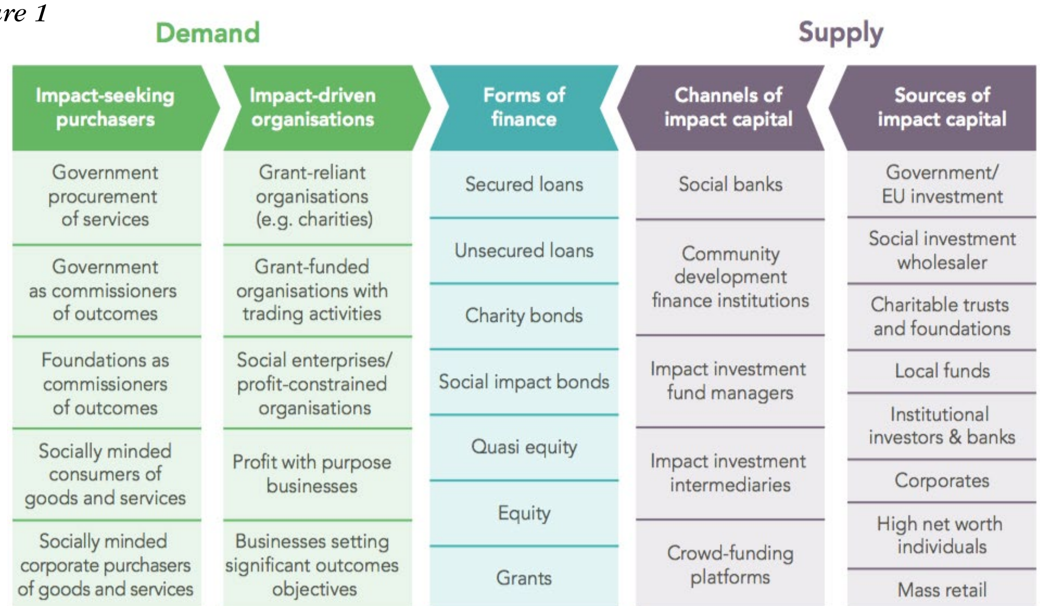
Subsequently, in the 2018 Fall Economic Statement, the Government of Canada committed up to $755 million in repayable finance over 10 years for a Social Finance Fund and an additional $50 million in grants and contributions for an Investment and Readiness program to build requisite capacity in the sector. These announcements represent the largest potential injection of new capital into impact investing and social finance in Canada, and with it, the promise of an acceleration of the trends and opportunities we describe in this chapter. However, it is important to underscore that while access to capital is a necessary condition to move to a coordinated impact investing market, it is not a sufficient condition. There remain a number of important and unresolved questions relevant to the nonprofit and charitable sector that are fundamental to unlocking the potential of impact investing in Canada. We ask, and respond to, three of these key questions in this chapter: In what ways has a deliberate approach to impact investing been designed and implemented in Canada? What have been the results and lessons, and what challenges still exist? Looking ahead, what will it take for the sector to be effective in making use of the new injection of funding and the momentum of a growing social finance market?

In the next section, we review the key developments in the Canadian impact investing ecosystem over the past decade and ask whether we have moved to a coordinated approach to market development. We then examine the macro- and micro-challenges that persist in building a coherent approach, and subsequently situate the prominent tensions that may be amplified within the nonprofit sector as impact investing continues to grow. The chapter closes with our assessment of strategies and opportunities to promote the development of impact investing in Canada and the participation of the nonprofit sector within it.

The Impact Investing Ecosystem

Impact investing in Canada is growing at an impressive rate. It was estimated at $9.2 billion in 2016 (RIA, 2016) and rose to $14.75 billion two years later (RIA, 201). These assets are part of a complex ecosystem that requires coordination among the supply of capital, the demand for the capital, and the intermediaries and enablers that link them (Harji & Hebb, 2010; 2014). No one component of the system can exist without the simultaneous engagement of the others. In a departure from the traditional segregated system of addressing societal needs, with clear distinctions of the roles of the nonprofit, public, and private sectors, the dual mandate to seek both financial returns and social impact invites collaboration across these sectors, not just within them. Figure 1 illustrates the impact investing ecosystem and the various actors who engage each other in multiple combinations.

Figure 1



(Source: G8 Social Impact Investment Taskforce (2014), *Impact Investment*)

This framework distinguishes investors that are seeking impact (the "supply side") from organizations that are delivering impact ("the demand side"). Governments, foundations, impact funds, institutional investors (such as pension funds), financial institutions, high-net-worth individuals, and retail investors are typical sources of impact capital. Canadian private and community foundations have been leaders in promoting impact investing, with both a significant allocation of capital assets (approximately $2 billion) in impact investments (RIA, 2016) and as an amplified influence in how the industry has evolved (Purpose Capital, 2017). Impact-driven organizations include revenue-generating nonprofits and charities, social enterprises (under various legal forms), and social businesses, as long as their business models and services can generate financial returns. The purchasers of impact-oriented services include governments (either as procurers of services or as commissioners of outcomes), foundations, socially minded consumers, and corporate purchasers.

The forms of financing available to impact-driven organizations are diverse, ranging from loans and bonds to equity and equity-like hybrid structures such as revenue-based financing arrangements and convertible debt notes. The channels of capital are equally varied and include credit unions, community development institutions, impact investment fund managers and intermediaries, and crowdfunding platforms.

Impact investing has the potential to contribute to the sustainability of nonprofits and social enterprises (Weber & Geobey, 2012); however, robust estimates of demand for impact investment have been elusive. The *Canadian National Social Enterprise Sector Survey Report* included 1,350 social enterprises across Canada with cumulative sales of goods and services of at least $828 million (Elson et al., 2016). The potential demand across the nonprofit and charitable sector is harder to determine, although Imagine Canada's 2013 survey found that between one-half and three-quarters of charities engage in some form of earned income-generating activity (Lasby, 2013).

Innovations and Opportunities

A hallmark of impact investing is the development and adoption of financial innovations that optimize for both financial returns and social impact. As expected in any nascent industry, some of these innovations will strengthen or evolve over time, while others will fail. For example, new fund managers entering the market have been able to mobilize capital from retail investors and accredited and institutional investors, on both concessional ("impact first," below market) and market-rate terms (Open Impact, 2018). These offerings target a range of social and environmental sectors, including affordable housing, Indigenous businesses, renewable energy, healthcare, and food security. Investment product offerings include green bonds, community bonds, private equity funds, and social impact bonds, as discussed later in this chapter.

New organizational forms and structures, particularly on the demand side, have also emerged in response to the hybrid nature of impact investing. In British Columbia, "community contribution companies" (CCCs) encourage an institutionalized balance between financial returns and social objectives with a limit on profit sharing. In Nova Scotia, a similar corporation category – the "community interest company" – was created in 2016 to allow the incorporation of companies driven by profit motive and community purpose. In addition, certified B Corporations – administered by the B Lab nonprofit – have also gained traction across Canada, with more than 120 registered B Corps that infuse their social mission into their articles of incorporation, providing annual verification and reporting to maintain their certification.[1]

Social purchasing and procurement are important components of the impact investing ecosystem (Hebb & Hachigian, 2017). As purchasers, governments and major institutions such as universities and hospitals use their vast procurement budgets to include tendering from social enterprises and nonprofits, as well as embedding requirements for other community benefits in their contracts for goods or services. In Canada, the negotiation of community benefit agreements (CBAs) was pioneered leading up to the 2010 Olympics in Vancouver and the 2015 Pan Am Games in Toronto, and was adopted in one of the largest infrastructure projects to date, the Crosstown (Eglinton) transit line in Toronto. In 2017, Ontario became the first jurisdiction in North America to legislate a commitment to include CBAs in all major publicly funded infrastructure projects (Government of Ontario, 2017). The inclusion of these mission-driven entities in contracting arrangements can help build the market for social enterprises, enabling them to generate streams of revenue that can be used to attract private impact investors.

New impact-investment networks have also evolved. Many of these are in Quebec, which is the source of some of the most vibrant impact investing activity in the country. Such networks include the Fiducie du Chantier de l'économie sociale (Fiducie), which invests in collective enterprises and nonprofits in the province via a multi-stakeholder approach – providing a total of $49 million in 153 organizations to date. It is "an excellent example of meeting the combined need for institutional and financial innovation: a new investment vehicle or product and a new institutional and organizational framework of governance" (Mendell & Barbosa, 2013: 114–115).

Finally, innovative impact investing platforms are emerging. Among the most prominent is the Social Venture Exchange (SVX), housed at the MaRS Centre for Impact Investing. The SVX provides a listing platform for investment in mission-driven organizations, connecting them with impact investors. This innovative platform demonstrates the power of perseverance in the ecosystem, as it took more than 10 years to bring the SVX from ideation to implementation, despite significant philanthropic investments and high-profile institutional sponsorships. These types of platforms have an important role to play in bridging the demand and supply sides of the market while also reducing the search and transaction costs for investors, particularly at scale (Bugg-Levine & Emerson, 2011).

Unfulfilled Potential?

Societal Challenges in Market Building

Despite the early promise of impact investing as a tool to address society's wicked and complex problems (O'Donohoe et al, 2010; Freireich & Fulton, 2009) and the optimism we detailed in our previous work (Harji & Hebb, 2014), the last few years have demonstrated that the road to a robust, coordinated marketplace is a bumpy one, in Canada and beyond. While social finance and responsible investing continue to grow impressively globally and in Canada (RIA, 2016; RIA, 2019), it is evident that there remains a sizable gap between the initial expectations set by market leaders and the current reality of the impact investing market.

We should be aware of the broader context within which impact investing has been situated over this last decade. While the dynamic nature of capitalism propels our economy forward, inequality is an ever-present by-product of this system (Piketty, 2014). From 1997 to 2007, the richest 1% of Canadians received almost a third of all income gains (Yalnizyan, 2010). Many of our intractable social problems, including homelessness, health, hunger, recidivism, and addiction, remain deeply rooted in issues of poverty and inequality. There are some who feel that if, as a society, we are not prepared to address issues of systemic poverty and inequality, impact investing cannot effect the necessary changes within our economic system to be truly meaningful (Giridharadas, 2018).

Impact investing is predicated on the idea that investors can "do well and do good" at the same time (Porter & Kramer, 2011). It seeks to move away from the binary view of capitalism, with its winners and losers, to one of "shared" or "blended" capital (Bugg-Levine & Emerson, 2011). But many refute the idea that social issues can be solved through private investment (Edwards, 2010; Giridharadas, 2018). This view holds that high-tech billionaires such as Bill Gates, Mark Zuckerberg, Pierre Omidyar, and Jeffrey Skoll, whose prescription for civil society is to act more like business, are wrong. The role of civil society, argues Michael Edwards (2010), is to challenge capitalism, not acquiesce to it. Giridharadas (2018) is even more scathing: he claims these approaches reinforce the inequalities of wealth and power.

Coupled with growing economic inequality, and perhaps in reaction to it, is an increasing politics of fear and resentment and the growing nativism that accompanies it. While we see this clearly in the current US political system, it is also present in Canada, Europe, Asia, and beyond. Such a political shift also acts as a barrier to impact investment because it increases the sense of risk embedded in traditionally underserved communities while decreasing the collective response needed to address many of these issues. Such political forces push us toward individual solutions, with each of us responsible for our own lot in life.

The early pioneers of impact investment did not anticipate the myriad social issues evident in the adoption of Brexit, the election of Donald Trump, the Rohingya expulsion, or the Syrian refugee crisis, to name just a few. It could be argued that impact investing is designed to appeal to our "better angels" rather than to baser human instincts. In many ways the "sunny days" of 2015, with the collective optimism for impact investing, already seem far behind us, and this shift in political mood, reflected in recent provincial elections in Canada, is slowing the adoption of impact investment.

But all is not lost. While impact investing should not be seen as a panacea for all that ails us, it is a useful tool to address the specific issues for which it is designed. Increasingly, new private investment opportunities are being developed for affordable housing, social enterprises, sustainable agriculture, green bonds, and renewable energy, for example. If we curtail our rhetoric about the value of impact investing and focus on the specific uses of this tool, it is possible to move toward achieving a coordinated impact investing marketplace – though, as we see in the next section of this chapter, not without addressing challenges.

Structural Challenges in Market Building

Although the promise of impact investing has not yet been fully realized in practice, there are some encouraging signs, notably in terms of awareness and interest from philanthropists, investors, financial institutions, and governments. As a result, there appears to be more capital poised to be deployed in this way. It is unclear, however, how much of this capital has actually been used, or returned. More pointedly, there are still significant gaps in several areas, both in Canada and globally (Wilson et al., 2015). These include a limited understanding of the demand for this capital, especially from the nonprofit sector; a fragmented set of institutions and enablers to match demand and supply; an undeveloped policy and regulatory regime that has not kept pace with this interest; and a need for more reliable impact measurement to provide confidence and comparability across the market.

In this section, we explore several structural barriers that still exist in this market-building phase. While several of the challenges are applicable to other comparable markets, such as Australia (Addis et al., 2013), some aspects are unique to Canada.

Inordinate Emphasis on the Supply of Capital

There has been a disproportionate focus on the "supply side" of capital – that is, increasing the amount of capital from investors and convincing them to signal their willingness to deploy impact capital. The sources of this capital are varied, and it is important to distinguish among them: the shorthand of "investors" can refer to either asset *owners* (such as high-net-worth individuals deploying their own capital) or asset *managers* (such as pension funds managing capital on behalf of a constituency group). This distinction is important in clarifying investors' motivations, which influences the forms of capital they deploy, and their return expectations (Impact Management Project, 2018a). The delineation is not always obvious, however. For example, a financial institution may act as an asset owner when using its own capital or as an asset manager when investing on behalf of clients. Similarly, private foundations often identify as asset owners, but public foundations will likely identify as asset managers – though both receive tax exemptions in exchange for acting on behalf of public interest.

The disproportionate focus on the supply side raises a number of issues. The development of impact investing has been influenced by the preferences of these investors, who have been perceived as being risk-averse, having a relatively short time horizon (for financial repayment), and seeking financial returns that are comparable to conventional investments (based on comparable asset class profiles). Even private and public foundations, which have been influential actors in both deploying capital and building the market, tend to have investment committees that are risk-averse. This is partly due to how they define the terms of "fiduciary duty" as it applies to impact investments, as well as how they make decisions about their expectations for return, risk, and impact in the absence of comparable benchmarks (especially on impact). These preferences do not necessarily match the needs from the demand side and thus reduce access to such capital or increase its cost. As a result, there has been a heavy emphasis on "de-risking" through the use of guarantees, credit enhancements, and technical assistance facilities.

Inadequate Understanding of the Demand for Capital

A major impediment to the growth of impact investing is a lack of reliable data and multi-sector knowledge about the market(s). The overall picture of demand for impact investing is incomplete, and Canada remains a subset of regional markets – each with its own distinctive characteristics, regulations, and needs – rather than a coherent national market. And while there are some recognizable subsectors where impact investing can play (and is playing) a role – affordable housing, renewable energy, and sustainable agriculture are among the most obvious examples – other areas such as Indigenous social finance require a more nuanced understanding of both the potential applications and risks of this approach (Longaphy & Boggild, 2017).

Another challenge on the demand side relates to financial literacy and capacity as it applies to the concept of repayable finance (Phillips & Johnson, 2019). While these are issues that are of concern more broadly, the retrenchment of traditional government and philanthropic flows has increased the strain that nonprofits and charities face in maintaining or increasing their funding. Risk aversion is also a big factor on the demand side, particularly by nonprofit boards, which often would rather restrict programs than take on debt for their organizations. Repayable capital requires a sound revenue-generating strategy, and while many charities and nonprofits do in fact generate revenue (Lasby, 2013), they often seek capital that is more flexible and patient than what is available from conventional financial institutions. Impact investing may offer a potential solution for some organizations, but the shift from grants to repayable capital requires a degree of financial and organizational capacity that may take time to develop, particularly for small and mid-sized organizations (Hebb, 2013). Yet the reluctance of public and private funders to cover “administrative costs” or “overhead” makes it difficult for organizations to invest in the training, technology, and expertise that would enable them to build the requisite capacity (Phillips & Johnson, 2019). Additionally, there is a need to clarify regulations around charities and nonprofits undertaking “business” activities (Steering Group, 2018).

Limited Intermediary Capacity

Intermediaries play a variety of roles in connecting demand and supply and ensuring a more streamlined, efficient, and functional market. They can operate on the supply side (e.g. conducting due diligence on potential investees on behalf of investors), on the demand side (e.g. strengthening the business model or impact framework for a social enterprise), or in a hybrid role that bridges both sides (e.g acting as a broker of transactions while also providing post-transaction technical assistance). For the nonprofit sector, there are several challenges to engaging in impact investment related to meeting the expectations of investors, including a need to adjust or completely overhaul internal operational procedures, such as monitoring and evaluating frameworks and risk assessments (Mendell & Barbosa, 2013: 119).

Intermediaries can help nonprofits reduce the costs of securing investments, test new innovations in delivering products or services, and strengthen their capacity to scale up. While more specialized intermediaries are emerging, in addition to a variety of existing “mainstream” providers (Harji & Reynolds, 2014), these activities remain fragmented and at a small scale, particularly as they apply to nonprofits. Moreover, funding for intermediaries is often limited to pilot projects, without significant pools of funding to support them to grow, unlike what the UK had designed through the Big Society Capital intermediary. The need for funding intermediaries is the primary driver behind the new Canadian Social Finance Fund, established in 2019, although the 10-year rollout required to fully fund this initiative leaves it prone to political risk of being diminished or eliminated.

Impact Measurement Challenges

One notable gap in the ecosystem is in the area of impact measurement – to provide reliable, comparable, and useful information on the results achieved through impact investments. Canadian organizations have used global frameworks such as "impact reporting and investment standards" (IRIS) and "social return on investment" (SROI), as well as Canadian-designed approaches such as Demonstrating Value (Hebb & Bhatt, 2014; Best & Harji, 2010). In recent years, there has been some progress in coalescing around common standards (e.g. IRIS indicators, the UN's Sustainable Development Goals, or SDGs) and methods (e.g. theory of change, impact evaluations), and exploring alignment among various approaches (e.g. with the SDGs or the Canadian Index of Wellbeing). Many of these approaches are still being refined and adapted for use across a range of subsectors and contexts, and there is still a lack of standardization and comparability across them. At the same time, there is limited visibility and transparency into what is already occurring and uneven adoption across the nonprofit sector (Phillips & Johnson, 2018), which increases the costs of acquiring and using impact data.

Addressing the challenge of impact measurement will be required to reduce the inefficiencies and costs of measurement so that investors and investees are inspired to use these approaches and data, and feel confident doing so (Harji & Reynolds, 2014). This is not unique to impact investing: the broader nonprofit sector as well as governments face ongoing challenges in monitoring and evaluation efforts (Phillips & Carlan, 2018). However, there are some recent encouraging developments on this front. In 2017, we (Harji & Hebb) were co-chairs of a multi-stakeholder effort seeded by the Government of Ontario to develop an action plan in designing a common approach to impact measurement for the social enterprise sector in Ontario (Impact Measurement Task Force, 2017). This work continues with a multi-stakeholder group, led by Carleton University, seeking a "Common Approach" to impact measurement. There are other sector- and region-specific efforts to coordinate impact-measurement training and capacity development, but these have yet to achieve a significant level of scale and coverage (Impact Measurement Task Force, 2017; Lalande et al., 2016).

Restrictive Public Policies

There is currently no national legislation related to impact investing. Arguably one challenge in producing a national legislative framework is that impact investing lies at the intersection of financial-sector and charitable-sector regulation, which have been constructed and managed very differently from each other. The former has traditionally been risk-averse and has limited the entry of new impact investing products, while the latter has been anchored in dated notions of giving and "trusts." That said, recent developments have provided much-needed clarity and some potential openings. One example on the supply side is clarification of rules around program-related investments (PRIs) that provide guidance for foundations and other investors on deploying capital in a way that takes into account non-financial considerations. However, in other areas such as "commercial" revenue-generating activities of charities and nonprofits, CRA regulation of business activities has not kept pace with the sector's evolution and creates uncertainty.

Other policies that influence impact investing are not typically crafted as "impact investing policies" per se but are usually framed in terms of specific issue areas (e.g. poverty reduction, affordable housing, clean energy). As there is greater awareness among all generations – but particularly among millennials – around climate change and income inequality, this is being reflected in their preferences for responsible and impact investments (RIA, 2019).

Social Impact Bonds

One impact investment tool that has been a particular focus of government is the social impact bond (SIB). Many jurisdictions, notably the UK, the US, Australia, Canada, and a few Canadian provinces, have implemented SIBs. To date, there are more than 100 SIBs on offer around the world, with varying degrees of success (Del Giudice & Migliavacca, 2019; Gustafsson-Wright et al., 2015). It could be said that SIBs have become synonymous with impact investing as a whole, by both those who support the use of market-based instruments and those who oppose their incursion into civil society. While much has been written on the promise of SIBs (Fathing-Nichol & Jagelewski, 2016), they remain a relatively small component of the impact investing ecosystem.

A SIB is not a bond per se, as a return of the investor's principal is not guaranteed in this exchange. More accurately, SIBs are a form of pay-for-performance contracts. Investors provide capital upfront to agencies that are delivering new and innovative interventions. If the intervention achieves its predetermined objectives and milestones set by government commissioners, investors are repaid by government, the cost offset by the savings generated from the successful program. In this way, it is hoped that investors take the risks that arise from innovation, agencies have the required capital to carry out new programs, and government reaps the rewards of longer-term net societal benefits and cost savings – in other words, a virtuous circle for all parties, including those who receive the benefits of new, innovative approaches to service delivery.

Governments of all political stripes have endorsed the SIB structure, but for many civil society actors, this enthusiasm is seen as a desire by governments to offload their responsibilities to private investors (Del Guidice & Migliavacca, 2019). There are a number of other concerns relevant to the nonprofit sector (Jackson, 2013). First, the costs of implementation, in terms of both time and money, have been higher than many initially anticipated – for those commissioning the SIB and for those vying to receive the investment and deliver the programs. Often the cost of monitoring and enforcing contracts to avoid any "gaming" of the contract terms has made these investments unwieldy. Second, the interventions themselves are often not as innovative as originally anticipated. Additionally, there are fears that the beneficiaries of the program may be "cherry picked" in order to achieve the thresholds required for government to pay investors. Many service organizations resist the notion of randomized control trials to prove the effectiveness of their programs because this means a number of potential beneficiaries are intentionally excluded from accessing services that could benefit them. Finally, investors often look for a range of government guarantees in innovative SIBs to reduce the inherent risk, thus undermining the basic premise of (risk-taking) SIBs.

When we separate the hype surrounding SIBs from their reality, however, we see that, like many impact investing instruments, when used correctly for a specific purpose, they deliver the intended results. In the Canadian context, the 2016 Community Hypertension Prevention Initiative SIB (also known as the Heart and Stroke SIB) provides a valuable model for the types of interventions that are most suited for these instruments (Farthing-Nichol & Jagelewski, 2016). This SIB has a precise objective, an innovative program that is reasonably easy to monitor and measure, an easy-to-understand delivery vehicle, knowledgeable intermediaries, and a manageable time frame, and it has attracted a number of investors. Within these parameters, the Heart and Stroke SIB could prove the value of SIBs and allay some of the fears that have surrounded this instrument. However, it is still too early to make a definitive judgement on this example or its broader implications.

What's Next

Unpacking the Tensions

As impact investing gains momentum, nonprofits will be pulled into engaging with this range of capital, actors, and instruments, whether by choice or necessity. It remains an open question whether large parts of the sector are aware of these developments and the potential opportunities and risks they present. In this section, we outline some of the tensions we anticipate as impact investing gains traction. We argue that these tensions already exist but may be amplified in the coming years and that nonprofits should be informed about how to engage constructively with this eclectic new set of actors, structures, and policies.

Scaling with Impact?

One prominent tension for the nonprofit sector is whether the "mainstreaming" that's necessary to enable scale in impact investing – particularly on the part of those that provide or manage capital – will dilute the attention paid to impact, in terms of its relative importance to realizing financial returns. While "impact" is what differentiates impact investing from conventional investing, the drive to scaling – to allow for greater efficiencies in mobilizing and deploying capital, such as through larger funds – will bring investor pressure to "de-risk" these investments and reduce their transaction costs.

In practice, this de-risking can include a range of policy tools such as targeted investor incentives in the form of tax credits or availability of first-loss capital (where early investors agree to bear the first losses in an investment to catalyze the participation of co-investors that otherwise would not come in). These instruments often carry the implicit (or explicit) assumption that impact investing is inherently riskier for investors, even if there is no evidence to suggest that this is the case (Gray et al., 2017). An inordinate focus on investor de-risking strategies has typically not been matched with equal focus on investee de-risking, especially for nonprofits operating in constrained environments that may need this even more.

Another tension posed by the drive to mainstream is the emphasis on the subsectors and investment opportunities that have the highest probability of success – defined in terms of the track record of an asset class or sector, the targeted risk-adjusted returns (and comparability to appropriate benchmarks), and risk-sharing arrangements that minimize downside financial risk. This has also tended to underplay or ignore the importance of "impact risk," which includes a number of potential ways in which impact would fail to be realized (Impact Management Project, 2018b). One implication is that mainstream capital will increasingly be directed to sectors and issues that a) can absorb capital at scale, b) can absorb capital at a reasonable transaction cost, c) can put it to work quickly, and d) have a high probability of achieving targeted financial returns.

In Canada, this skews toward certain subsectors: affordable housing, renewable energy, and sustainable agriculture (Harji & Reynolds, 2014). Investments in these sectors have relatively long track records, based on substantial intermediary presence and policy/regulation, and arguably sizable investment from government and conventional investors. Conversely, the areas where there are gaps in funding – such as poverty reduction, Indigenous business development, and others – may not seem as attractive in the absence of risk-reduction or credit-enhancement strategies. Not coincidentally, these are also subsectors where nonprofits are heavily involved, and which also face the most pressing funding shortfalls.

This raises another concern: if nonprofits are critical for delivering much-needed social and environmental services and maintaining local and deep connections to the communities in which they operate, what is the appropriate mix of funding and investment to enable them to be responsive to their constituency groups – and effective? In what ways can impact investments (compared to grants) allow nonprofits to address community needs, and what is the value proposition that they can offer to investors in return? Does repayable capital create pressure to deliver services to achieve targeted financial returns in ways that would be detrimental to the long-term health of communities? What if nonprofits are not able to repay, and what are the consequences of impact investors pursuing litigation to recover all or part of their investments from nonprofits that were not able to generate targeted financial returns? In addition to practical challenges, critical voices have raised ethical and moral concerns about the legitimacy of impact investing to facilitate the long-term structural social changes required to address the root causes of poverty and inequality (Giridharas, 2018).

We raise these questions because it is critical that the nonprofit sector grapple with them when identifying when and how impact investing would be the right fit for certain organizations. More broadly, we suggest that there are several implications for the sector as a whole. The first is to proactively engage with impact investors to support the deployment of impact capital to particular subsectors, issues, and regions that may have been overlooked based on targeted financial returns or risk perception. The second is to understand impact investors' motivations and conditions and work with different groups to balance their strategies and impact goals, along with their financial return and risk preferences. And third, to infuse a lasting commitment to impact within investing transactions, so that impact considerations (such as measurement approaches, target setting, and accountability mechanisms) are not diluted or ignored and are aligned with the needs of the communities, which nonprofits deeply understand.

Collective Action or Collective Bargaining?

While the deployment of private capital to address public good has had a long history in Canada, the recent momentum around impact investing has been steered by some prominent actors that have shaped its evolution over the last decade. Leadership has emerged from six main groups: private foundations (including McConnell and Inspirit); community foundations (including Hamilton, Edmonton, and Ottawa); financial institutions (including credit unions such as Vancity and Alterna, and commercial banks such as RBC and TD); impact funds (including Renewal, InvestEco, and New Market); governments (both federal, led by Employment and Social Development Canada, and provincial, notably Quebec); and social enterprise intermediaries (such as the Centre for Social Innovation, CCEDNet, and the Pillar Nonprofit Network).

Collective action focused on "ecosystem development" or "sector building" for impact investing has been ongoing over the last decade, and three efforts are worth noting: the 2010 Social Finance Task Force; the formation of the Canadian National Advisory Committee in 2014, which expanded the range of actors from the task force and had a strong focus on reducing the barriers to impact investment within the nonprofit sector; and the Social Innovation and Social Finance Strategy Co-Creation Steering Group that was convened by the federal government and that brought together a wide range of stakeholders for broad public consultations. The latter group's 2018 report raised six critical issues for the sector and made 12 detailed recommendations aimed at government, investors, and nonprofits (see Appendix 1 for this list of recommendations). The recommendation to create a Social Finance Fund (no. 6) and those related to federal procurement policies (no. 8) have already been acted upon.

Looking ahead, whose perspectives will drive, or dominate, the next phase of industry development in impact investing? Evidence from Canadian contexts, as well as from the US and UK, suggest that foundations, governments, and investors will continue to be most influential, relative to nonprofits and charities. An inordinate focus on supply-side solutions may be appropriate in some regions and subsectors but not necessarily for others. While it is important for nonprofits to be fully represented in these discussions, the direct participation of community groups and networks – either directly or via proxy through the nonprofits that theoretically can represent their interests – is not only desirable but necessary if impact investing is to gain widespread legitimacy as an effective tool to address social and environmental challenges.

This raises a number of additional questions. When defining impact intentions, or indeed the measures by which success is defined, how are community-based actors engaged or empowered? As more Canadians explore opportunities to direct their giving and investment using new platforms, how can they get credible information about changes in communities – positive and negative, anticipated or unanticipated? As governments consider new regulations to flow capital to nonprofits and social enterprises, in what ways are these organizations afforded the same protections and recourse as comparable private sector enterprises (and is this even appropriate)?

Strategies to Advance Impact Investing

While these tensions are real, they are not insurmountable. There are a number of strategies that could advance impact investing in Canada. Some have been implemented in other jurisdictions, while others are uniquely Canadian. Some have been raised before; others are new.

The first step in building a robust impact investing market is to engage the sector broadly and build its capacity across the full ecosystem. All too often the disparate actors in this supply chain operate in isolation rather than as a coordinated whole. On the capital supply side, those who want to make impact investments are often unable to find opportunities that meet the risk/

return profile and the investment structure they require. This group blames the lack of investable deals in Canada as the impediment for more widespread adoption of impact investing. They suggest that a ready supply of capital exists, if the investments were there. On the other hand, intermediaries and investees often spend years trying to raise capital. This mismatch points to investor risk-aversion as the barrier to a larger market for impact investment in Canada.

Additionally, those in the nonprofit and social enterprise sector who need capital find the field itself confusing and difficult to navigate. The time and money spent on working within the CRA and Securities Commissions' rules can be costly. Regulations on acceptable corporate structures within the sector, ability to generate "profit" and retain earnings, share offerings, and the issuing of prospectuses for example, are often unclear and can discourage private investment in the sector. This confusion puts a chill on impact investment activity. Overworked executive directors and risk-averse boards make exploring new opportunities in the impact investment marketplace difficult at best. The cumbersome and often time-consuming nature of developing these new private investment opportunities, the confusing regulatory environment, and the lack of clarity in impact measurement often mean that such innovations are ignored in favour of sticking with past practice, even when this results in diminishing returns. Here, blame for the slow adoption of impact investing lies in the lack of a "mindset shift" within the sector coupled with a restrictive regulatory environment. Progress will require all the actors in the supply chain – investors, intermediaries, and investees – to fully engage with each other. This requires a significant amount of capacity-building at each level of the ecosystem.

It is instructive to look to the UK and how this jurisdiction embedded capacity-building within its social finance framework. Roughly 10 years ago, the same problems that we currently find in Canada were identified in the UK marketplace. In 2012, the UK government launched Big Society Capital with £600 million in investable capital. This fund in turn invests in intermediaries in the ecosystem. By 2017, it had invested approximately £2.3 billion, successfully leveraging private capital. As a result, UK intermediaries were strengthened and private investor risk was reduced. This was not the only strategy implemented to strengthen the UK's social finance market. Capacity to take on impact investment within the charitable and social enterprise sector was strengthened through the Investment and Contract Readiness Fund (2012–2015). Markets for social enterprise were opened through the Public Service (Social Value) Act of 2012. Innovation in SIBs was encouraged through a variety of approaches, including the £80 million Life Chances Fund. Impact measurement systems were further developed using tools such as the unit cost database that provides the underpinnings for the financial proxies used to measure a variety of social interventions. These coordinated actions by multiple actors have led to a robust impact-investing environment in the UK.

Some of these capacity-building initiatives have been replicated by the Canadian federal government and are necessary in Canada if we are to overcome the blockages that have been slowing our growth. They will help all the actors in our ecosystem emerge simultaneously, as no one part of this chain – supply, demand, intermediaries, or financial instruments – can exist without the others. Our large geographic landmass combined with our small population and tendency toward risk-aversion requires government to be a key partner in building this market. This is no different than many other parts of our economy.

To date, the connections between domestic and internationally focused impact investing have been weak, though this represents a potential opportunity for international NGOs. Impact investment focused on international development-assistance objectives, often called development finance or blended finance, has taken a major step forward in Canada over the past year. This includes the recently launched FinDev Canada, a $300-million development finance institution (DFI) based in Montreal designed to leverage private capital for a wide range of impactful investments in developing countries. Several other policies, programs, and funding commitments are being explored by Global Affairs Canada (GAC), linked to Canada's Official Development Assistance (ODA) commitments.

A final step forward for the impact investing market is the adoption of common approaches in impact measurement. Impact measurement is now a key aspect of impact investing, yet the tools and methods used by the sector remain rudimentary. Considerable work is underway in this area, as noted earlier. However, rather than dictating that a single measurement tool or methodology be used across the sector, a common approach is being adopted that builds on a set of best practices in impact measurement, using the SDGs as an overarching framework. The goal is to allow organizations to roll up their current impact-measurement results into a broader common structure.

The SDGs offer great promise to the impact investing ecosystem, as they suggest an avenue by which to scale up the work of the sector within a much broader global agenda without sacrificing their vital connection to their communities. There is early evidence that the SDGs are providing a common language and impact framework for investors to align and report on their activities. If this continues, it will enable the impact investing market to grow while simultaneously encouraging Canada's largest institutional investors to take on impact investing as part of their overall responsible-investment strategies. It is estimated that US$5 to $7 trillion will be required to reach these goals by 2030, and private capital has been viewed as a significant component of this total. As such, achieving the SDGs will require a shift in thinking to a much larger framework within which to situate and catalyze impact investing.

These strategies raise important implications for those in the nonprofit sector seeking to engage in impact investing. The first consideration is the importance of having sector voices heard within industry-building efforts in order to credibly situate the role of nonprofits beyond simply the recipients of impact investments. The second is to develop the capacity and skills within the sector to comfortably engage with the private sector and government in negotiating new structures, policies, and terms for impact investment. The third is to organize collectively – through existing industry associations or new sectoral or regional collectives – and engage proactively with investors to build shared agendas and common principles around how to use impact investing more effectively.

Conclusion

Impact investing has garnered the attention of prominent actors in the Canadian private, public, and social sectors. Social sector funders – including foundations and governments – are testing various approaches to impact investment and will likely continue to experiment as they learn what works. Nonprofits and charities that are seeking new sources of capital to grow their revenue-generating activities may be compelled to seek and take on impact investment capital. Those organizations that are not yet exploring this area may be intrigued, given the growing availability and visibility. As more capital is directed intentionally toward impact, the nonprofit sector will be compelled to engage – if not by choice, then by necessity.

Our chapter began by asking three key questions, and we conclude by returning to these. How has a deliberate approach to impact investing been designed and implemented in Canada? We initially suggested that despite many encouraging developments, relative to the initial promise, the potential for impact investing has yet to be realized. We have seen growth in capital mobilized, the types of actors and organizations engaged, and innovations in structures and products. However, the iterative and experimental approach that has characterized much of the activity over the last five years has not yet yielded transformative changes in practice or public policy, or within any particular issue area. With the recent announcement of the Social Finance Fund, we could be on the brink of the type of transformational approach that could propel activity to new heights.

On the second question, we describe critical challenges in the broader societal context within which impact investing has been situated, as well as the structural challenges in growing this new market. On the former, we recognize that the expectations placed on impact investing – as a variant of "good" capitalism – may not be appropriate nor sufficient to tackle the root issues that may have been the result of, or aggravated by, "modern" capitalism. On the latter, we describe the limitations of the current approaches – an inordinate emphasis on the supply side, an inadequate understanding of demand, and challenges with intermediary capacity, impact measurement, and policy sophistication. We expect progress on several of these areas as the various actors continue to iterate and experiment, especially if this occurs in a more coordinated manner through deliberate policy and market development actions.

What have been the results and lessons, and what challenges still exist? What will it take for the sector to be effective in making use of the new injection of funding and the momentum of a growing social finance market? We identify a series of tensions and questions for the nonprofit sector, some of which may be amplified as impact investing gains momentum. Retaining a focus on "impact" relative to "investing" will undoubtedly be an important role for the sector to accentuate, in a way that balances the needs of investors, intermediaries, frontline organizations, and communities. The participation and leadership of the sector in identifying, mediating, and reconciling these tensions will be essential. This will require sustained, coordinated action within the nonprofit sector, and with the different stakeholder groups around it, including the important role that the government will undoubtedly play in responding to the recommendations of the 2018 Social Innovation and Social Finance Strategy Co-Creation Steering Group report.

Overall, we remain optimistic about impact investing as a positive force to enable social and environmental progress – or more specifically, as a tool to provide new resources, innovation, and collaboration opportunities for nonprofits. Our perspective has been shaped by roles as practitioners, academics, and advisors; from our firsthand experience, we have seen compelling examples where impact investing can have a positive impact. Nonprofits need to be informed, pragmatic, and even cautious in examining these opportunities. They need to understand both the potential upside from new capital, expertise, and structures, and the potential negative implications related to prioritizing financial over impact concerns, inadequate investment readiness, and low community participation and accountability. We believe that many of these issues can be managed if proactively considered and negotiated in good faith, and we remain hopeful about the ability of stakeholders in the Canadian impact investing market to do so.

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Appendix 1

Excerpts from the Steering Group Report

We believe the Government has a critical role to play in supporting these ecosystems by addressing key gaps that arise across six interconnected areas:

1. *Skills and capacity to equip social purpose organizations with the knowledge and resources to adopt social innovation and social finance approaches;*
2. *Funding and capital opportunities so that social purpose organizations have the financial resources to develop, test, adopt, and grow innovative solutions to social and environmental problems;*
3. *Market access for social purpose organizations to be able to find buyers for their goods and services;*
4. *An enabling policy and regulatory environment that creates the conditions for social innovation, social finance and social purpose organizations to flourish;*
5. *Evidence and knowledge sharing to enable social purpose organizations and funders to work together based on what works, develop better goods and services, scale their impact and evaluate progress; and*
6. *Awareness and mobilization efforts to spur interest and build support for the growth of social innovation and social finance approaches.*

RECOMMENDATIONS

1	Anchor commitment and long-term policy action toward social innovation and social finance in Canada through legislation
2	Establish and fund a permanent multi-sectoral Social Innovation Council to advise the federal government
3	Create a permanent Office for Social Innovation
4	Improve social purpose organizations' access to federal innovation, business development and skills training programs
5	Establish a multi-departmental Social Innovation Ecosystem Program
6	Create a Social Finance Fund
7	Ensure federal funding practices support and enable social innovation
8	Incorporate social procurement guidelines, tools and training opportunities into the Government's focus on a cohesive sustainable procurement plan
9	Address the legal and regulatory issues impeding charities and non-profits from engaging in social innovation, social finance, and social enterprise
10	Initiate a series of controlled regulatory experiments, or "sandboxes," to explore and experiment with new regulatory models
11	Establish a Social Innovation Evidence Development and Knowledge Sharing Initiative
12	Coordinate a national social innovation and social finance awareness campaign

Notes

[1] B Corps (a type of certification) are often confused with benefit corporations, which (as a legal form) exist only in the US (to date) and provide a new legal definition of social-purpose-oriented companies.

Biography

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Karim Harji is an associate fellow and programme director, Impact Measurement, at the Said Business School, University of Oxford. He was previously co-founder and director at Purpose Capital (now Rally Assets) and senior fellow at the J.W. McConnell Family Foundation. His research focuses on impact investing, impact measurement, and social accounting.

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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

The Muttart Foundation

Chapter 15

Leadership in the Charitable Sector: A Canadian Approach?

Paloma Raggo
Carleton University

What is leadership? We often have an intuitive understanding of the concept, but in practice leadership can mean different things to different people. There is a powerful normative assumption that "leadership" in the charitable sector is related to notions of selflessness, inspiration, ethical behaviour, and benevolence. However, leadership is more complex than good intentions and ethics. While meaning well, leaders even in the charitable sector can engage in incredibly destructive behaviours. By reducing leadership merely to specific qualities, skills, or traits that should be emulated, we limit our understanding of what leadership is and where it can emerge. There is no consensus among scholars, practitioners, consultants, and volunteers in the sector on a universal definition. Diversity of experiences, people, best practices, challenges, and solutions make the charitable sector a fascinating incubator for the study of leadership.

While it is tempting, and would be conceptually easier, to develop a coherent and unified approach to describe the charitable sector's leadership, the leadership literature and practices are diverse and, on occasion, even contradictory. No single leadership approach can be effective in all circumstances. Indeed, we should be wary of pre-made "leadership recipes" that create the illusion that it is possible to morph into a particular type of leader at any given time if someone simply follows carefully prescribed instructions. This chapter's main lesson is a simple one: people, context, and organizations matter in shaping what leadership is and who leaders are. This lesson is particularly relevant for Canadian leaders who must navigate their organizations through crises and difficult times while continually adapting to a changing environment. Although there is no single approach to leadership, purposefully embracing a diversity of views and people makes organizations more effective in achieving a common goal with their followers, which ultimately is the fundamental goal of leaders. Canadian leaders seem particularly attuned to the ethics and values at the heart of many decisions that can push an organization's mission forward.

This chapter discusses leadership using a theoretical and an applied approach. On the theoretical side, the chapter maps many of the relevant leadership theories applicable to the charitable sector. By discussing the critical theoretical underpinnings of leadership research, the chapter offers an informed critique of one-size-fits-all leadership approaches that dominate current public discourses and training offerings. On the applied side, drawing from 30 semi-structured interviews with Canadian practitioners in the charitable sector, I explore how leaders understand leadership. These practitioners' perspectives help us assess whether there is a distinctively Canadian leadership approach. This then enables us to sort through the theoretical approaches that can best inform current Canadian practices – moving the practice of leadership forward amidst a time of great uncertainty and profound changes in the sector's landscape.

What Is Leadership?

There is no coherent and unified view of what leadership is (see Asrar-ul-Haq & Anwar, 2018). In their comprehensive review of leadership research, Dionne et al. (2014) noted more than 29 different characterizations of leadership theories and models in the literature, including leadership described as authentic, charismatic, contingent, ethical, follower-centric, and transformational, to name only a few. While they probably all add to our collective understanding of what leadership can be, these labels and their proliferation also foment a general dissatisfaction with leadership studies and sustain persistent confusion about what leadership is (see Day & Antonakis, 2012).

Leadership can be broadly defined as "a process whereby an individual influences a group of individuals to achieve a common goal" (Northouse, 2016). This definition is helpful, as it does not ascribe preferred qualities, values, or skills. Instead, it focuses on the process of influencing followers, which raises important questions about power and relationships in which all individuals are embedded. This definition highlights essential questions that need to be considered in our discussions about leadership: Who becomes the leader and why? Who is under the authority of the leader? How does the leader's influence operate? How is the common goal determined, and how do we know we achieved it? Whether it focuses on the personalities, skills, traits, competencies, or context of operation, each leadership perspective offers diverse answers to these important and fundamental questions. Perhaps the most frequently asked questions (Jackson & Parry, 2011) in the literature about leadership are:

- Are leaders born or made?
- What makes an effective leader?
- What's the difference between leadership and management?

Individual-Oriented Perspectives

The answers to these will vary depending on the perspective considered. On the first question above, some proponents of what I label "individual" perspectives are generally more interested in the intrinsic nature of leadership, emphasizing the inherent traits and qualities that leaders possess and how they enable or constrain leadership development. Proponents of individual approaches argue that personality matters tremendously. While leadership skills can be improved, many view leadership as an innate quality that some possess, a *je ne sais quoi* that makes some individuals stand out and emerge as natural leaders. This approach, also historically referred to as the "Great Man theory," proposed by Carlyle (1840), contends that people (of the male kind, more specifically) affect the course of history because of their heroic qualities.

Individual approaches to leadership are perhaps the most written about. A simple Google Books search of the term "leadership" yields more than 140 million results. Both the academic and popular books stress the importance of the individual characteristics of the leader and highlight tales of extraordinary leadership to reinforce their ideas. Leaders' identities, actions, and skills define what leadership is. Individual approaches will often rely on charismatic and influential leaders throughout history as guidelines to achieve effective leadership. The assumption is that if we learn from great leaders in our fields, past or present, we can derive leadership's best practices and train current and future leaders.

The emphasis on best practices has the unfortunate drawback of minimizing stories of failures from which we often learn the most. The selection bias toward positive leadership stories, despite the immense benefits of the hard lessons learned from destructive leadership and "bad" leaders, makes such approaches overly prescriptive and can over-attribute the successes and failures to individual leaders within organizations. While single leaders – often the executive director (ED) – can influence their organizations, no one can confidently attribute an organization's successes or failures to only one individual.

What, then, is "destructive" leadership? It can be defined as volitional behaviour by a leader that can harm, or intends to harm, a leader's organization or followers by a) encouraging followers to pursue goals that contravene the legitimate interests of the organization or b) employing a leadership style that involves the use of harmful methods of influence with followers, regardless of justifications for such behaviour (Krasikova et al., 2013: 1,310). Most of us have learned a great deal from bad leadership through personal experience, yet the literature has under-explored this critical aspect of leadership (see Silard, 2018). (Understandably, there is a moral reluctance to learn from despots, dictators, or terrorists despite the important, albeit negative, influence they have had throughout history and over their followers.)

These individual-oriented approaches still dominate leadership discussions today, particularly in the consulting world. While helpful to develop some of the crucial aspects of leadership, the over-emphasis on the individual traits, personality, and skills needed to be "a good leader" can obscure the importance of other vital elements such as followership and dynamic leadership *relationships*, as well as the context in which leaders operate and how it influences their behaviours.

A variant within this group of individual-oriented approaches is interested in how leaders are made, and the learning aspects of leadership, acknowledging that some skills aimed at promoting "good leadership" can be acquired through experience and training. Several important initiatives have focused on building leadership "capabilities" (Bish & Becker, 2016; Clutterbuck & Arundel, 2017). For example, the Ontario Nonprofit Network (ONN) initiative Leading Our Future describes the need for nonprofit leaders to demonstrate their leadership through seven essential competencies:

- *builder*: building of internal capacity and relationships with stakeholders;
- *thinker*: demonstrating strategic thinking, agility, and analytical capacity;
- *mentor*: leading by example with empathy and authenticity;

- *storyteller*: communicating effectively to various audiences;
- *innovator*: encouraging experimentation, risk-taking, and learning;
- *connector*: promoting sharing resources and developing relationships; and
- *steward*: protecting the resources (financial and human) of the organization.

Approaches promoting the learning and training of current and future leaders are crucial to fostering positive leadership practices for individual leaders. They are also helpful in promoting robust leadership training in the sector. However, it is essential to remember that these approaches can potentially underestimate the considerable influence and constraints that the operational environment exerts on leadership decisions.

Context-Oriented Approaches

Context-oriented approaches emphasize that leaders are neither born nor made, but that the expression of their leadership is contingent on operational and cultural contexts. This set of approaches highlights the interplay between leaders and their operational environment and cultural and legal contexts. How is context constraining or enabling particular types of leadership? Fundamentally, it challenges the idea that personality and skills will predict the kind of leadership that will be most effective. Instead, proponents of context-oriented approaches posit that the context in which people operate matters and shapes leadership practice. It is not so much what leaders bring to the "table" but how the leaders' choices and situational variables affect their practices and ability to influence others. Some variants, particularly in the contingency theory models, consider leaders' behaviours or personalities and focus on their effect on leadership and organizational effectiveness. Yukl (2011) describes the situational variables as "conditions the leader cannot change in the short term, including characteristics of the work (e.g., task structure, role interdependence), characteristics of subordinates (e.g., needs, values), characteristics of the leader (expertise, interpersonal stress), and characteristics of the leadership position (leader authority, formal policies)." Another related variant called the situational approach (see Blanchard et al., 1993) asks whether leaders behave similarly in all situations and how their leadership style adapts. It recognizes that the same people will act differently depending on the problem they are facing.

More critical leadership approaches such as feminist leadership theories also reject the premise of "born or made," especially as the discipline has historically developed its core leadership concepts on the experiences of white males, thus reaffirming a particularly racialized and patriarchal form of leadership (see Suyemoto & Ballou, 2008; Ospina & Foldy, 2009; & Vetter, 2010). Feminist scholarship often emphasizes the legal and cultural contexts that inhibit women-centred leadership and reminds us that there is nothing intrinsic about being a woman that prevents her from being a leader. Rather, systemic deterrents such as childcare policies, cultural practices, or skills seen as preferable that have been historically associated with male-oriented leadership are key factors. More broadly, contextual approaches acknowledge that leadership outcomes are dependent on the context and push back against the over-attribution of successes and failures to the individual leaders. Contextual approaches remind us that the culture of organizations, processes, and policies are important considerations for determining whether leadership can be successful. These approaches are particularly relevant in times of significant turbulence that require leaders to adapt and shift their practices.

Relationship-Oriented Approaches

On the question of leadership effectiveness, contextual and relationship-oriented approaches differ from individual-oriented approaches in their views of what makes a leader effective. Individual approaches will tend to focus on the behaviours of the leader and their personal characteristics, whereas relational approaches will consider a group's perspective, dynamics, and goals. Proponents of leader–member exchange (LMX) theory, perhaps the dominant relational approach, concentrate on the quality of interactions and whether the exchanges between a leader and members of a group facilitate common goals. LMX theory highlights realities of workplace settings such as in-groups, out-groups, and other important dynamics that can enable or constrain leadership in organizations (see Graen & Uhl-Bien, 1995).

Relationship-oriented approaches pay attention to the interactions between leaders and followers. Such leadership theories ask the critical question: why do followers follow leaders? Bligh (2011: 426) notes in discussing Weick (2007) that "follower-centred approaches deepen almost any leader-centric analysis: when we shift questions of perception and attention from leaders to followers, then inevitably new issues arise and new questions are raised." If we emphasize only the leader's characteristics or skills, we are left with an incomplete understanding of leadership, because without followers there would be no leaders. Leadership is a process because it is a relationship-building endeavour between leaders and followers. Learning and building trust and legitimacy based on the interactions of leaders and followers go beyond a leader imposing their will on a group but are affirmed when followers accept a leader's authority and they jointly move toward a common goal.

The related notion of transactional leadership (Bass, 1985) is based on the exchange of rewards and benefits between leaders and followers to achieve a goal set forth by the leader. Despite the perception that transactional leadership is a cold and calculated approach to leadership, in reality we learn how effective transactional leadership is when time is of the essence or when trust is nascent or fragile. Often discussed in parallel to transactional leadership, transformational leadership is perhaps the best-known relational approach (Bass & Avolio, 1993). This approach is relationship-oriented because it is the process of interaction between a leader and followers that is transformational: followers and leaders create a positive organizational culture and change the people involved in the relationship. Avolio, Waldman, and Yammarino (1991) note that transformational leaders often display the characteristics known as "the four Is":

1. idealized influence;
2. inspirational motivation;
3. intellectual stimulation; and
4. individualized considerations.

Idealized influence manifests itself by focusing on an organization's values, ethics, and morals to (hopefully) create a sense of belonging and shared vision within the organization. Inspirational motivation enables transformational leaders to inspire their followers to work toward common goals beyond self-interest. Transformational leaders foster intellectual stimulation by channelling and encouraging innovation and creative thinking and by adapting solutions to new and emerging problems. Lastly, individualized considerations allow the leader to develop and foster unique relationships with followers based on their needs and individual strengths.

There are simply too many leadership approaches to provide an exhaustive overview. When conceptualizing what leadership and leaders are, it is important to remember that people, relationships, and contexts matter. There is no single recipe to concoct the perfect leader. There are only people who can recognize, listen, and learn from others about how to lead an organization toward its goals, small or large.

Leaders and Managers: An Important Distinction

The academic and practitioner literatures have been inconsistent in distinguishing between a leader and a manager, often conflating them. While both leaders and managers work toward common goals of the organization, managers are not always the leaders an organization needs, and leaders are not always in management positions, conferring them the authority to enact meaningful change. This highlights the difference between emergent and assigned leadership. In other words, a leader is not always determined by their rank in the organization. Managers typically focus on tasks, control, and hierarchies and value order, consistency, and predictability. Leaders foster strategic directions, inspire their followers, and create a shared vision within the organization and beyond (Northouse, 2016). Management or leadership activities happen at various levels of the organization, whether at the staff level or, in the case of nonprofit and charitable organizations, within the board of directors (McMullin & Raggo, 2020). Context and outside forces also play an essential role in determining what is needed – more management or more leadership relative to particular circumstances. The COVID-19 pandemic has presented a unique situation in which both leaders and managers have had to act to fulfill the organization's mission to ensure its long-term survival. Understanding that managers are not always leaders and that leaders are not always in a position of authority allows us to appreciate how leadership can emerge in unexpected places if the conditions are ripe.

In contrast, management is often aligned with a title or a pre-determined role. The unfulfilled expectations of leadership toward a manager can lead to disappointment and conflicts. Ultimately, ignoring the fundamental differences between leadership and management can produce very destructive outcomes for an organization. It undermines trust, motivation, and cohesion, which are key elements of positive leadership relationships. Organizations need leaders *and* managers to achieve their missions; training managers in fulfilling their leadership potential is vital to ensure a vibrant and modern organization. Notably and at the heart of the distinction between leadership and management is the notion of power and the capacity to influence others' behaviours without overt coercion.

Paths to Influence: Power and Leadership

Any discussion of leadership would be incomplete if we didn't reflect the notion of power. Throughout history, the association between power and leadership has been consistent. It has spurred entire subfields devoted to understanding how people in positions of authority (legitimate or not) exert influence (overtly or covertly) on others. Lukes ([1974] 2005) describes three fundamental dimensions of power:

- decision-making (direct and open);
- agenda-setting (controlling issues); and
- ideological (overt or covert influence).

These different dimensions illustrate the need to go beyond the traditional idea that power resides in the formal position one holds. Hence, it is essential to distinguish between a manager (formal position) and a leader (both formal and informal positions). For instance, managers have the decision-making power. Yet leaders who are not in assigned positions with designated titles of direct authority over others can work behind the scenes to influence the type of issues addressed within the organization, thereby relying on agenda-setting power. In other words, they can influence the vision of the organization. Leaders can influence their followers to do things they would otherwise not do on their own, despite not always possessing direct decision-making power like managers. People could have or exert power from six different sources (French & Raven, 1959; Raven, 2008; Northouse, 2010):

- *Referent power*: Followers positively identify with the leader. For example, a well-liked teacher can exert influence over their students (Northouse, 2010).
- *Expert power*: Followers perceive the leader to be competent and knowledgeable. Someone with a Ph.D. would be likely to be considered an expert in their field of study and credible in their recommendations for action.
- *Legitimate power*: Someone possesses a formal and recognized authority, such as a democratically elected member of parliament.
- *Reward power*: A person can provide benefits to someone. For instance, a philanthropist acts as a patron to a charity.
- *Coercive power*: People can punish others to influence their behaviours. Parents can have coercive power over a child when they misbehave by taking away toys.
- *Information power*: A person has knowledge that could be valuable to others. For instance, the "office gossip" might possess this type of power if they have valuable information about an organization's culture that would allow newcomers to navigate the office politics.

The existence of multiple sources of power reinforces the idea that power is most often informal and depends on the context of the relationships at play. An effective leader will identify various potential sources of power and yield that influence multiple ways to achieve the organization's goals. An effective leader is also a strategic one who recognizes informal sources of power within the organization and channels these for the organization's greater mission.

Leadership in the Nonprofit and Charitable Sectors

Leadership in the charitable and nonprofit sectors is often associated with the activities and relationships of the board of directors and senior executives. While the nonprofit literature is not as expansive as that of the private sector, it is strongly influenced by skill-oriented approaches (Kearns et al., 2015). There is no consensus on what distinguishes leadership in the nonprofit sector from other industries, but some have suggested that common differences include "1) governance and the role and relations of boards and executives; 2) sources and mix of revenues; and 3) extent of reliance on volunteers for program delivery" (Herman & Heimovics, 1989, as cited in Herman & Heimovics, 1990:167). Hoefer (2010: 431) notes that in the sector, "leadership, in its essence, is not about commanding but about influencing others." A key fundamental difference is the special relationship between executives and their boards, thus explaining why the literature has emphasized the skills and responsibilities of executives (Tschirhart & Bielefeld, 2012; Kearns et al., 2015; Herman, 2016). Jaskyte (2012: 440) highlights this peculiarity of nonprofit leadership: "The board of directors and the ED form the leadership core and are critical components of governance in nonprofit organizations." For instance, Harrison et al. (2013) show how positive perceptions of board leadership and quality relationships are positively associated with the effectiveness of the board.

The work on executive leadership (Hoefer, 1993, 2003; Herman & Heimovics, 1990, 2005; Menefee & Thompson, 1994) has focused mainly on the practical skills needed in nonprofits, such as relationship-building with the board of directors and developing the organization's priorities and relationships with all its stakeholders. Such practical emphasis on "what leaders do" is a fundamental component of any nonprofit leadership discussion.

While there is much practical emphasis on "what leaders do," discussions on "who leaders are" will often characterize leaders in nonprofit organizations as possessing exceptional qualities and leadership styles that align with charitable organizations' benevolent nature. Leadership in the sector is often described as "ethical," "authentic," or "spiritual."

The most popular characterization applied to the sector is undoubtedly the "servant leadership" model, which explicitly links ethics, morals, and values (Parris & Peachey, 2013). The term "servant leadership" was coined by Greenleaf (1970), who argued that such leadership is a "way of life" rather than merely a management approach. Servant leaders are said to possess 10 fundamental traits (Greenleaf, 1991; Spears, 2004): listening, empathy, healing, awareness, persuasion, conceptualization, foresight, stewardship, commitment, and community-building. These attributes apply well to the charitable sector because servant leaders aim to help others and inspire people to go beyond their self-interest for the community's good (Ebener & O'Connell, 2010). This has resonated well with practitioners in the sector, particularly in light of the increasing perceptions of corporate greed (Parris & Peachey, 2013).

Followership is an essential element of servant leadership because it creates the right work environment, enhancing followers' well-being (Parris & Peachey, 2013). While often focusing on the leaders' characteristics, this approach also stresses the importance of the relationship with followers and the intangible links, such as trust and legitimacy, between them. Such approaches and labels can idealize practitioners in the sector and assume that they do well because leaders mean well. The relationship between servant leadership and organizational outcomes beyond focusing on employee satisfaction needs to be further investigated.

In sum, the leadership literature in the nonprofit sector has focused disproportionately on EDs' skills and relationships with boards. It tends to treat leadership in highly normative and moralistic terms. More comparative research is needed to understand how organizational cultures in nonprofits foster or inhibit some approaches to leadership. In addition, the nonprofit literature should expand its view of leadership beyond the study of those in formal positions of power and pay more attention to emergent sources of leadership. Future research must also take more seriously issues of power, diversity, and gender within the sector's leadership.

Leadership in Practice: Canadian Perspectives

What do leaders of Canadian charities and nonprofits think about leadership? What are the important leadership lessons we can learn from these practitioners? This final section draws from 30 semi-structured interviews from 2015 to 2017 with Canadian practitioners identified by their peers as leaders in their respective fields. The interviewees included EDs, program managers, and other people identified as having innovative leadership practices in the sector, with the open-ended interview style fostering a grounded understanding of leadership in a Canadian context.

What Does Leadership Mean to You?

When Canadian sector leaders were asked what good leadership means to them, they consistently provided a view of leadership as a set of relationships while also emphasizing the moral character and ethical foundations needed to achieve their own organizations' missions. These views differ from the findings of my previous research on US-based leaders of international NGOs, who described leadership as a strategic and efficient way to achieve an organization's goals (Raggo, 2014). In contrast, the Canadian leaders highlighted the values at the core of their leadership practices. Whether in their discussions about the need for greater trust or transparency, Canadian leaders of charities discussed their moral and ethical obligations to those affected by their actions. While we cannot make a definitive case for a specific and unique Canadian leadership style in charitable organizations, the Canadian leaders reminded us that leadership is first and foremost about people: who they are and what they do. This emphasis on people rather than outcomes warrants further investigation to understand how Canadian charity leaders are different from their peers in other countries and enable us to better appreciate how culture, institutions, and policies shape our ideas about leadership. Through the interviews, four key lessons emerged to help us understand leadership in a Canadian context.

Lesson 1: Leadership as Building Trusting Relationships

Canadian leaders focused the most attention on the people within their organizations and the relationships among them. The core concepts of trust, accountability, authenticity, and empowerment cement these relationships. A community philanthropist and leader in a civic association discussed leadership as a function of trust: "Trust is paramount. You have to develop trust, whether it's with recipients or with your donors. It is equally important at both ends."

This comment highlights the intangibles of leadership as well as the centrality of stakeholder relationships. Another leader from a large service-delivery organization discussed how the concept of leadership was rooted in the idea of social justice and the belief in people, yet again emphasizing the importance of relationships: "If we don't believe in people, and we don't genuinely practise that as leaders, and it's the people we serve and the people we work with; if we don't believe in them, then that shows. Then you just have an assembly line of social services rather than a heart-driven sector." The ED of a large volunteer organization noted, "When I think of people who are great leaders, I think of people who in quiet ways figure out ways to connect people, organizations, and ideas. They focus on the best in people and focus on mobilizing those assets and attributes and making them part of the bigger picture." This comment reinforces the idea that leaders work with others to achieve common goals and that organizations can accomplish their goals by harnessing people's identities and linking them to the organization's purpose. Another leader of a service-delivery charity discussed the importance of transparency as a driver of trust. By being transparent about all aspects of the organization, leaders build trust with stakeholders and foster continued engagement with them.

Lesson 2: Leadership as Moral Character

A leader in fundraising focused her discussion on leaders and their character. She used the example of a leader who was widely perceived to be honest, caring, and authentic. The notable factor in making this leader outstanding is an ability to be vulnerable and discuss their strengths and weaknesses openly. The deep commitment to a cause is also important: "A positive leader is someone who is not afraid to have a conviction about something. I have seen leaders just kind of spew out catchy buzzwords, rhetoric. But it's flat, it's not meaningful." Another well-established fundraising professional noted that intimidation tactics and strong-armed leadership tactics do not lead to long-term success in his experience. Rather, leadership is about the ability to inspire and motivate your followers, not intimidate them into doing what you need. This is an important reminder, and a recurrent theme in the interviews: effective and successful leadership centres on integrity, openness, and honesty. Discussions on personal ethics and values (individual characteristics) generally outweighed mentions of strategic thinking, decision-making, and vision (skills). This emphasis on personal moral character is symptomatic of a sector seeking to build its identity on achieving social change. While leaders might be strategic in their daily practice, interviewees interpreted leadership as a deeply personal endeavour. This challenges us to rethink whether all aspects of leadership can be learned and asks us to consider whether those with strong personal ethics have a better chance at long-term success in the Canadian charitable sector.

Lesson 3: Leadership as a Personal Mission

As many practitioners in the sector will know, keeping staff and stakeholders engaged with the organization's mission is critical for the organization's survival and success. Leaders must engage those around them to achieve common goals. However, in practice, goals need to be translated into tangible outcomes. A national leader in donor development noted that "positive leadership in this sector really needs to be about showing the team, the employees, and the volunteers the impact they are having because it is not an easy sector to work in, and we rely very heavily on volunteers. And we need to retain these good people, people who believe in the mission; we need to show the impact we are having. It does come down to that at the end of the day." Interviewees discussed the need to develop concrete implementation strategies and capacity-building to promote a meaningful leadership relationship within the organization. Others stressed the importance of making evidence-based claims in order to foster trust and transparency among all the stakeholders.

Lesson 4: Leadership as Focused Accountability

A leader with more than 30 years of experience in the charitable sector, particularly in healthcare and education, notes that a leader must understand that "they cannot be all things to everyone." Instead, a leader must find areas of excellence within the organization and steer people toward these niches to create positive outcomes. This leader also reminds us that no one leader can satisfy all stakeholders. Instead, they should strive to foster a better alignment between the organization's goal, capacity, and, ultimately, outcomes. Accepting that no one can satisfy all their stakeholders will make leadership practices and expectations more realistic and achievable. Leaders hold substantial power within their organizations but cannot possibly be responsible for everything all the time. The practice of focused accountability can help develop and nurture environments where leaders respond to reasonable expectations and create positive outcomes for everyone involved in the leadership relationship.

Conclusion: Future Research and Learning Opportunities

This chapter presented a brief overview of leadership in the charitable and nonprofit sector. Instead of focusing on the skills and traits that leaders must possess, I aimed to provide a broader understanding of what leadership is or can be. Too often, the emphasis is on leaders' exceptional character, and too little attention is put on their relationships with their staff and stakeholders. The nonprofit literature tends to equate leaders with EDs or board presidents, but in practice leaders are people who can work with others to achieve things, both small and big. Focusing excessively on the specific skills and traits that leaders should have inhibits discussions about who leaders are, their personalities, interests, experiences, and the relationships they seek to build. Leadership is more than a title; leadership can emerge in every corner of an organization. By recognizing the diversity in leadership approaches, we can create a diverse environment where innovative ideas, sustainable practices, and social change can flourish.

While it is not advisable to generalize overly from the group of Canadian practitioners asked about leadership for this chapter, some critical observations can be made. Leaders in this group unequivocally focused most of their leadership discussions on the people around them. Repeatedly, they mentioned the need to foster trust, authenticity, and empowerment. Ultimately, many viewed positive leadership as being accountable to the people they serve. This is perhaps why the label of "servant" leadership is so persistent in the sector. Although the use of labels to characterize types of leadership can help develop an intuitive sense of the concept, it also detracts from its broader purpose: bringing people together toward a common goal. How we achieve this depends on context, personalities, and relationships. One leader in the fundraising field described this intersection best in her comments: "Positive leadership is marked by people who create organizations that are innovative and open to change, both in terms of how they do their own business and how they see the wider context in which they operate. They can identify a problem and will work and reach out to others to find a solution."

Is there a distinctive Canadian leadership model? It is unclear, as there are no comprehensive studies thus far on Canadian leadership, particularly in the nonprofit sector. ONN recently carried out an exhaustive review of the leadership landscape and reported that several key competencies are needed in the sector (Clutterbuck & Arundel, 2017). Further research should continue to investigate leadership by asking the leaders themselves to define the concept and study the conditions under which leadership can emerge. There is still missing information about how gender, age, subsector, or previous professional experience affect how leadership is enacted within the charitable sector. Understanding the constraints and drivers of leadership, however one decides to define it, will enable executives and boards to better align their work with their organizations' missions; improve hiring, retention, and inclusion practices; and, ultimately, foster a more impactful sector in a post-COVID world.

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Biography

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Paloma Raggo is an assistant professor at the School of Public Policy and Administration at Carleton University. She earned her PhD at the Maxwell School of Citizenship and Public Affairs at Syracuse University studying accountability in international nonprofit organizations. Her current research focuses on leadership and governance in the charitable sector, global philanthropy and international development, and applied research methodologies.

The People Environment:
Leaders, Employees, and Volunteers

Chapter 16

Planning for Succession in the Interests of Leadership Diversity: An Avenue for Enhancing Organizational Diversity, Inclusion, and Equity

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Diversity is a word whose very mention tends to elicit reactions ranging from enthusiasm to eye-rolls to outrage, depending on the audience. Diversity has recently returned to the foreground of political and social debate in Canada, and in Western society more broadly, brought on by sweeping social uncertainties, which are partially the product of economic tensions stemming from the most recent recession, growing trends toward automation, and tendencies toward globalization. These are compounded by societal tensions driven by long-term political strategies based on identity and wedge issues, changing rates of participation in education and workforce demography, and the expansion of civil rights protections to groups beyond Canada's four historical referents (women, people with disabilities, Indigenous Peoples, visible minorities). The focus of this chapter is to reflect on the state of diversity in the leadership of Canada's nonprofit sector, with particular emphasis on the role of boards of directors and senior executive teams, and on their processes for succession planning.

We take as our starting point a definition of *diversity* that reflects a measure of comparative difference in (reasonably) durable dimensions of personal identity such as sex, gender, race, ethnicity, age, religious affiliation, physical or cognitive (dis)ability, or sexual orientation for example. Note the inclusion of the words "comparative" and "durable," as they capture two important aspects implicit to understanding diversity. First, diversity is generally predicated on the notion of differences in identity from others, distinguishing the minority from the majority on some category or dimension of interest, such as gender or ethno-racial diversity (i.e. number of women on a board or proportion of visible minority directors). Without comparison to some implicit majority standard, diversity as a term or concept is difficult to conceptualize, let alone measure (Klein & Harrison, 2007). Second, it is worth qualifying the durability of any dimension of diversity, as we see identity as both dynamically intersectional (Crenshaw, 1991; Lau & Murnighan, 1998; Walby, Armstrong, & Strid, 2012) and increasingly fluid in its construction and presentation (Goffman, 1959). Age, for example, is a reasonably durable marker of diversity from which researchers often infer differential experiences and assumptions (Carton & Cummings, 2013; Williams & O'Reilly, 1998). Objectively, we can do little to slow the passing of time; we simply get older with each passing minute. However, we are more frequently qualified into durable categories such as generations (e.g. baby boomers, Gen-Xers, millennials, etc.) from which we might differentiate (sub)groups from each other, inferring internally consistent assumptions and shared experiences within categories and demonstrating differences among them.

Many will question this definition, both for what it includes as well as for its limitations. From the onset we should acknowledge that diversity can be both real in its observability and implication (Roberson, Ryan, & Ragins, 2017; Williams & O'Reilly, 1998) *and* a social construction in the way we impose categorical boundaries, operationalize distinctions among people and groups, and create meaning systems that focus attention – for better or worse – on some differences while ignoring others (Tajfel & Turner, 1979; Turner & Stets, 2006). A careful reader might note that we have explicitly not linked aspects of functional diversity, such as educational attainment or professional accreditation or organizational tenure, to our definition of diversity despite their importance. While such aspects meet the standard of a reasonably durable comparable difference and have been examined under the umbrella of diversity research (Horwitz & Horwitz, 2007; Jackson, Joshi, & Erhardt, 2003), they are not considered in this analysis.

Here, we also add a couple of other terms that warrant early introduction: *inclusion*, by which we mean a process through which people's differences are recognized, respected, and valued by the social group, unit, or organization (Fredette, Bradshaw, & Krause, 2016; Roberson, 2006); and *equity*, a term found in Canadian employment law. In this context, equity refers to the achievement of "equality in the workplace so that no person shall be denied employment opportunities or benefits for reasons unrelated to ability and, in the fulfilment of that goal, to correct the conditions of disadvantage in employment experienced by women, Aboriginal peoples, persons with disabilities and members of visible minorities by giving effect to the principle that employment equity means more than treating persons in the same way but also requires special measures and the accommodation of differences" (Employment Equity Act, 2015: 1). Equity is also a term used by sector advocates and practitioners with a slightly broader interpretation meaning to create equal opportunities for participation by addressing systemic barriers and sources of historical disadvantage (BoardSource, 2016). As our title suggests, this chapter explores how succession planning might be better understood not simply as a valid governance planning activity, but also as a meaningful tool in effectively developing a richer reservoir of diverse and historically marginalized talent from which to identify, attract, select, and recruit organizational leaders.

Diversity in the Canadian Nonprofit Context

In the Canadian context, the state of diversity has been described as both a glass half-full and a glass half-empty (Bradshaw, Fredette, & Surornyk, 2009). Among the general population, the visible minority population has grown steadily from 1.1 million, or 4.7%, in 1981 to more than 7.6 million, or 22.3%, of the national population in 2016 (Statistics Canada, 2017). However, much of this growth has been concentrated in three census metropolitan areas (CMAs). Montreal, with a total population of 4.1 million residents, is composed of 22.6% visible minority residents – 905,000 people. Of Toronto's nearly six million residents, more than three million, or 51.4%, now identify as members of a visible minority community. Whereas in Vancouver, a CMA of about 2.5 million people, about 49% of the population, 1.2 million people, self-identified as a visible minority in the 2016 national census (Statistics Canada, 2017). This means that 5.1 million of Canada's 7.7 million visible minority residents – slightly more than two-thirds – are concentrated in three CMAs, leading some to colloquially label this the "M-T-V effect," in which the diversity of these communities looks quite different than the demographic composition of the rest of the country, in which only about 7% of the population identify as visible minority members. Similarly, Statistics Canada (2017) reports an increase in the number of same-sex couples (married and unmarried), with a growing concentration in the largest metropolitan areas: approximately half of same-sex couples live in one of four cities (Montreal, Toronto, Vancouver, and Ottawa-Gatineau) as compared to about 10% in smaller towns and rural areas. With respect to age, Canada remains comparatively younger than all G7 countries except the United States, and while our country is predicted to continue to age rapidly in the coming years, even this is unevenly distributed, as the proportion of children still exceeds that of seniors in territories and prairie provinces (Statistics Canada, 2017).

Understanding the relative diversity among communities across the country is important as it creates a baseline against which we might compare the degree to which organizations are successful in reflecting the diversity of their stakeholders and constituents but also in becoming attuned to the local or regional demography. Diversity is about the mix, and getting the mix right in organizations is a matter of understanding proximal needs and interests of proximal stakeholders and community members, a point we will return to later in this chapter.

The nonprofit sector's estimated 161,000 organizations are distributed across 13 categories of activity and represent more than one million full-time-equivalent (FTE) jobs, or approximately 7.5 FTEs per organization (Statistics Canada, 2005). The sector contributes in excess of 2.5% of GDP to the total Canadian economy, a number that jumps to 7% if universities, colleges, and hospitals are included (Statistics Canada, 2007). Nationally, 44%, or 12.7 million, of Canadians self-identified as volunteers, who on average tended to be older, more likely white, more educated than in the previous decade, and slightly more frequently female than male (Vezina & Crompton, 2012). Indeed, recent studies have demonstrated that much – but certainly not all – of the sector has lagged behind Canada's changing demographic profile in terms of organizational diversity, particularly with respect to leadership diversity, with some studies reporting as many as 33% of organizations having no visible minority board members (Meinhard, Faridi, O'Connor, & Randhawa, 2011). Others have suggested that as many as 43% of boards and 91% of executive leadership positions are composed of white members, with women making up 44% of board seats and 62% of executive roles surveyed (Bradshaw et al., 2009). These findings are not inconsistent with those found in similar studies of the United States (Ostrower & Stone, 2005). Few surveys include estimates of participation rates of often-overlooked aspects of diversity such as sexual orientation or whether volunteers possess physical or cognitive disabilities. However, Bradshaw et al. (2009) found that 22.4% of boards surveyed included an openly lesbian, gay, or bisexual member, and 28% indicated that their board included at least one member with a physical or cognitive disability. One reason for the modest state of leadership diversity in the sector might be that, on average, fewer than four in 10 organizations are actively recruiting for diversity (McIsaac, Park, & Toupin, 2013), despite the growing awareness that the sector is heading toward a human capital cliff (Froelich, McKee, & Rathge, 2011; Tierney, 2006).

In what follows, an integrative understanding of diversity is developed, which results from three distinct perspectives that inform our understanding of the subject and the fluidity with which it has changed over time. Then we examine the practice of succession planning, providing a review of the dominantly held approach. Succession activities and the development of formal strategic plans present specific opportunities for organizations to benefit from leadership renewal but are fraught with consequential opportunities and risks, which we illustrate by way of diversity-centric succession scenarios. In the concluding section, we take stock of where we are today and consider where we may find ourselves in the not-so-distant future.

Understanding Workforce and Leadership Diversity

The study of "diversity" or "workforce diversity" is not new but continues to evolve and unfold with the rhythms of societal change. Ideas of inclusion and equity have followed similar trajectories, first narrowly defined by limited categories and reserved for relevant societally endorsed groups and later elaborated into broader themes and understandings with more generalizable impact. We need only look to the hard-fought and continued unfolding of civil rights among women, people of colour, or same-sex communities for an example of this type of evolution: first in the form of resistance to oppression and the struggle for basic rights and recognition for individuals as equal people under law, followed by (continuing) thrusts toward economic and social equality, and, more recently, as struggles for greater political power and influence and inclusion in the cultural facets of everyday "mainstream" life. The pattern moves from being accepted foremost as people and secondarily defined as a member of an identity group impacted by longstanding marginalization and disempowerment. Table 1 illustrates this pattern by sampling definitions of diversity, inclusion, and equity from across the organizational and nonprofit literatures at roughly 10-year intervals. While not a comprehensive list by any means, this review offers some insight into how the research community has marshalled itself around a set of common themes, focusing on differences in a) rights and opportunity, b) representation, and c) participation. These trends have largely shaped the theorizing, and more importantly the understanding, of how diversity, inclusion, and equity are practised in the field.

Table 1: Sample Definitions for Understanding How Diversity, Inclusion, and Equity Have Been Conceptualized

Diversity

"Demography refers to the composition, in terms of basic attributes such as age, sex, education level, length of service or residence, race, and so forth of the social entity under study," where diversity reflects "that the demography of any social entity is the composite aggregation of the characteristics of the individual members." – Pfeffer, 1983: 303

"The term diversity often provokes intense emotional reactions from people who, perhaps, have come to associate the word with ideas such as 'affirmative action' and 'hiring quotas,' yet it is a word that simply means 'variety' or a 'point or respect in which things differ' (American Heritage Dictionary of the English Language, 1993; Webster's Dictionary of the English Language, 1992)." – Milliken & Martins, 1996: 402

"We use 'diversity' to describe the distribution of differences among the members of a unit with respect to a common attribute, X, such as tenure, ethnicity, conscientiousness, task attitude, or pay. Diversity is a unit-level, compositional construct [...] Diversity, as we use the term, is also attribute specific. A unit is not diverse per se. Rather, it is diverse with respect to one or more specific features of its members. We propose that diversity is not one thing but three things. The substance, pattern, operationalization, and likely consequences of those three things differ markedly." – Harrison & Klein, 2007: 1200

"By 'diverse team' we mean a workgroup in which team members represent multiple identities or perspectives, as opposed to a group that contains members of a minority category." – Srikanth, Harvey, & Peterson, 2016: 454

Inclusion

"Schein (1971) described inclusion as the degree to which an employee is an 'insider' in an organization. Along the same lines, O'Hara et al. (1994: 200) described the concept as the 'degree of acceptance one has by other members of the work system.' Here we combine those two descriptions and define inclusion as the degree to which an employee is accepted and treated as an insider by others in a work system." – Pelled, Ledford, & Mohrman, 1999: 1014

"Specifically, definitions of diversity focused primarily on differences and the demographic composition of groups or organizations, whereas definitions of inclusion focused on organizational objectives designed to increase the participation of all employees and to leverage diversity effects on the organization." – Roberson, 2006: 219

"Our inclusion approach rests upon the premise that management desires a holistic change, one that advances a change in organizational culture. Necessary attitudes within an inclusive environment include a belief in the business case for diversity, a desire to develop sensitivity and awareness about diversity, and a willingness to engage in behavioral change," wherein "The degree of inclusiveness will be unique to the context, goals, work, and diversity of members within each organization." – Chavez & Weisinger, 2008: 345

"Board inclusion behaviors are the actions of board members that enable members from minority and marginalized communities to feel respected and engaged in the organization's governance." – Buse, Bernstein, & Bilimoria, 2016: 180

Equity

"Employment equity is a strategy designed to obliterate the effects of discrimination and to open equitably the competition for employment opportunities to those arbitrarily excluded. It requires a 'special blend of what is necessary, what is fair and what is workable.'" – Abella, 1986: 7

"The ability to manage diversity is the ability to manage your company without unnatural advantage or disadvantage for any member of your diverse workforce. The fact remains that you must first have a workforce that is diverse at every level, and if you don't, you're going to need affirmative action to get from here to there [...] The reason you then want to move beyond affirmative action to managing diversity is because affirmative action fails to deal with the root causes of prejudice and inequality and does little to develop the full potential of every man and woman in the company." – Thomas, 1990: 117

"In contrast, the 'equity' approach assumes that specific groups have been historically disadvantaged within organizations, requiring 'corrective' measures directed specifically towards the members of the groups." – Mirchandani & Butler, 2006: 478

"Equity is the fair treatment, access, opportunity, and advancement for all people, while at the same time striving to identify and eliminate barriers that have prevented the full participation of some groups. Improving equity involves increasing justice and fairness within the procedures and processes of institutions or systems, as well as in their distribution of resources. Tackling equity issues requires an understanding of the root causes of outcome disparities within our society." – Kapila, Hines, & Searby, 2016

Dating back to the early works in this domain (Blau, 1964; Kanter, 1977; Morrow, 1957), we have seen topics of opportunity, participation, and fairness as areas of multidisciplinary study, infusing the disciplines of psychology, sociology, law, political science, and economics, among others. Indeed, in a prominent – but seemingly forgotten – 1957 study published in the *Harvard Business Review*, Morrow outlined what might have been the first business case for diversity. It argues for the societal, economic, and organizational benefits of industrial desegregation in the American economy as a means of preserving democracy and the rule of law, defending capitalism in the face of communism, and driving greater economic productivity by reducing large-scale underemployment. In reading Morrow's arguments some 60 years later, they appear much more pragmatic than probably intended. While desegregation (along racial lines in his case) was predicted to improve the lives of individuals as well as society by way of economic, social, and health benefits, he noted that these changes would be met with resistance.

Virtuous cycles of improvement, he suggested, could result from increasing opportunities to participate in a wider array of employment fields, allowing economic growth for both the economy as a whole and also for otherwise marginalized individuals and communities. Raising people out of poverty by including them in the benefits of a prospering economy would spill over into intergenerational health and educational benefits. The challenge to improving diversity within the labour force, in his view, was to overcome the vicious cycles of exclusion institutionalized in the systems of segregation (Morrow, 1957) and, in today's language, improve diversity, inclusion, and equity. Morrow encouraged five actionable practices that today are taken for granted as central to improving organizational diversity:

1. desegregate physical plants and facilities;
2. engage stakeholder groups to encourage greater participation;

3. redirect recruiting efforts toward qualification;
4. develop employee orientation and training programs; and
5. demand consistent treatment and expectations from all members and decision-makers.

Reflecting on Morrow's belief that racial desegregation in employment, which was the tip of the diversity spear at that time, was intrinsically linked to the health and well-being of society and its most marginalized members, we might similarly apply the logic of virtuous and vicious cycles to draw the link between inclusion and equity among facets of diversity as we think of it today (including race, gender, sex, ethnicity, sexual orientation, physical and cognitive (dis)ability, age, religion, and their compounded effects).

Since Morrow, much has changed, but much has not. Legislation has mandated equal-opportunity and anti-discrimination initiatives for some dimensions of diversity on both sides of the border (Parris, Cowan, & Hugget, 2006; Thomas, 1990), yet the dynamics of inequality embodied in his vicious cycles can now be seen to apply to a broad spectrum of demographic characteristics, including race and religion, sexual orientation and gender identity, age, and physical or cognitive ability, for example. In a 40-year retrospective examination of the literature, Williams and O'Reilly (1998) review more than 80 diversity-relevant studies from leading management and organizational journals with a view to better understanding the relationship between diversity and performance. Their central proposition is that diversity is a double-edged sword. It affords greater potential creativity and problem-solving capacity in dealing with highly uncertain idiosyncratic organizational situations, but it also generates greater potential for group conflict and dis-integration (Williams & O'Reilly, 1998).

Approximately a decade later, van Knippenberg and Schippers (2007) reviewed the diversity literature from1997 to 2005, distinguishing demographic from functional diversity (Jehn, Northcraft, & Neale, 1999; Pelled, Eisenhardt, et al., 1999) and adding the fault lines or "intersectionality" (Crenshaw, 1991; Lau & Murnighan, 1998) to the existing set of theories. A point of differentiation between this review and others (Jackson et al., 2003; Pfeffer, 1983; Williams & O'Reilly, 1998) is the emphasis placed on the need to conceptualize and operationalize diversity as intersectionality, which is complex in its construction, measurement, and effects. Intersectionality, as embodied in the fault-lines approach, is characterized by the correlation of different aspects of diversity that together distinguish subgroups and subcategories from each other (Lau & Murnighan, 1998; Walby et al., 2012), and it highlights the differential, compounded effects for people exemplifying multiple dimensions of diversity. Originating from a strong tradition in Black feminist critical theory, Crenshaw (1991) emphasized the negative impact of structural, political, and representational forms of intersectionality, which lead to oppressive and marginalizing dynamics and result in compounded harms that exceed those predicted by either race or gender alone. In her words, "the problem is not simply that both discourses fail women of color by not acknowledging the 'additional' issue of race or of patriarchy but that the discourses are often inadequate even to the discrete tasks of articulating the full dimensions of racism and sexism" (Crenshaw, 1991: 1252).

More recently, a 2017 literature review published in the *Journal of Applied Psychology* (Roberson et al., 2017) reinforces many of the findings of prior studies and calls attention to the importance of context in shaping the implications of group diversity. Importantly, the authors emphasize the need to better understand the impact of appropriately operationalizing diversity in concordance with the manner in which it is theorized. Measuring diversity has been, and remains, an issue of significant concern among researchers, analysts, and policy-makers. A now classic study is Harrison and Klein's (2007) article "What's the Difference? Diversity Constructs as Separation, Variety, or Disparity in Organizations," in which they make a compelling case for distinguishing – and measuring – three dimensions of group diversity (defined as the "distribution of differences" among individuals in a social unit). In their approach, measurement needs to account for a) separation, which exemplifies "differences in position or opinion" among members; b) variety, which emphasizes "differences in kind or category" within a group or unit; and c) disparity, which captures "differences in concentration" of social resources and assets such as status or prestige (Harrison & Klein, 2007: 1200). Each conceptualization – separation, variety, disparity – expresses a distinct view of the nature and dynamics of organizational diversity, and researchers are cautioned to consider the methodological and measurement implications of each throughout the research design and analysis process. In summary, they offer a cautionary tale emphasizing that researchers should exercise specificity in defining how they conceive of, and measure, diversity according to their interest in forms of difference. In the absence of alignment between conceptualization and operationalization, conclusions drawn from research may be misleading or worse.

Thus far, we have discussed at some length how the field has defined, interpreted, and measured diversity across a spectrum of studies and approaches over the past several decades. What remains is to pull together a more coherent framework through which we might better understand how and why organizational approaches to diversity, inclusion, and equity differ in orientation, and how these differences affect succession-planning programs.

In drawing together our arguments, the next section focuses on three frames through which to consider leadership diversity based on competing logics that inform contemporary practice.

Three Frames on Diversity

As the literature review showed, "diversity" can mean quite different things, with differing implications for why and how nonprofits manage inclusion and equity. Table 2 illustrates three frames of diversity thought, which are proposed to contribute to how diversity is understood and addressed based on alternative assumptions and approaches to managing diversity in organizations.

Table 2: Three Frames of Diversity to Consider in Succession-Planning Programs

	Diversity as Demography	**Diversity as Difference**	**Diversity as Inclusion**
Logical Rationale:	The legal case Risk management	The business case Bottom-line thinking	The inclusion case Human capital paradox
Distinguishing Characteristics:	Fairness Anti-discrimination Attention to subgroup characteristics	Representation Market understanding Attention to subgroup variety	Participation Talent integration Attention to subgroup engagement
Implication for Individuals:	Assimilation of self, with minority group members indistinguishable from others by merit	Differentiation of self, with minority group members purposefully differentiated as resources	Integration of self, with minority group members distinguishable and individually valued as fluidly diverse
Implication for Organizations:	Equal-opportunity focused, with merit-based equality as the foundation of organizational selection, promotion, and succession	Competitive-advantage focused, with diversity as the basis of market penetration and organizational innovation	Talent-management focused, with diversity as source of unique value and opportunity to be integrated without assimilation

Diversity as Demography

The first frame, *diversity as demography*, reflects the legalistic and regulatory foundations that approach diversity as a recognition of individual and systemic discrimination based in part on structural and cultural barriers to equal opportunity. Built on the metaphor of a "legal case for diversity," organizations recognize the jeopardy of noncompliance and engage in risk-management and mitigation approaches to managing diversity. This likely includes measuring and reporting demographic employment and compensation data, the development of remedial training activities such as anti-discrimination programs, or the establishment of recruitment quotas and targeted retention guidelines. In practice, this frequently means attending to policies and procedures that measure numbers of subgroup participants, focusing on legally protected groups, and ensuring merit-based decision-making to facilitate fair (i.e. consistent) treatment and equal opportunity. It exemplifies a compliance mindset in which nonprofits focus on avoiding running afoul of the law and finding themselves subject to penalty or judgment. Attention focuses on conformity with, among other legislation, the Canadian Human Rights Act (1977) that forbids direct or indirect discrimination on the basis of race, gender, sexual orientation, disability status, and certain other grounds; the Charter of Rights and Freedoms (1982), by which every individual is equal under the law and has the right to the equal protection of the law without discrimination based on race, national or ethnic origin, colour, religion, sex, age, or mental or physical disability; and the Canadian Employment Equity Act (1986) that requires measures to increase the representation of women, Aboriginal people, people with disabilities, and members of visible minorities.

Remedies, from this perspective, tend to emphasize structural dynamics aimed at ensuring compliance and risk-mitigation that provide minority group members with merit-based equal opportunity, with little consideration of subsequent consequences of assimilation in which members are presumed indistinguishable from majority-group members. The basis for action is found foremost in understanding and comparing internal and external compositional demography (i.e. understanding the mix), and then invoking remedies that rebalance internal demography by making it more representative of the broader community in which the organization is situated (i.e. getting the mix right). In practice, this can mean undertaking diversity audits of key internal and external constituencies, establishing interview and selection quotas, revisiting candidate attraction and selection procedures, developing implicit-bias training protocols, and integrating learning and development pathways to remediate areas of potential candidate weakness up to the threshold at which the organization would endure undue hardship from further efforts to accommodate.

Diversity as Difference

Diversity as difference, the basis for the business case for diversity, presumes that diversity is a valuable resource both for organizations seeking to better understand diverse stakeholder and constituent groups (such as funders, clients, and potential volunteers) and for those seeking a richer basis for decision-making and innovation. From this perspective, diversity is seen to be a source of competitive advantage: organizations promote diversity as a means of extracting financial or operational gain. Morrow was not alone in identifying the economic benefits of increasing workforce diversity in organizations. Indeed, Litvin (2002), speaking to the nonprofit sector, argued for a business case for diversity, building on arguments in the for-profit management literature (Campbell & Mínguez-Vera, 2008; Kochan et al., 2003; Wang & Clift, 2009). Central to the business case are the beliefs that broader information inputs and the merging of differing perspectives result in better-quality decision-making, in part by overcoming the limitations of groupthink and similar cognitive biases. Additionally, when we consider leadership roles such as those in managerial and governance contexts, researchers have argued in favour of leadership diversity as contributing to better market understanding and stakeholder outreach initiatives. With "bottom line" thinking as the basis of the business case for diversity, there is an implicit presumption of costs – particularly to group cohesion, social capital, and collective solidarity – which are offset by the benefits to learning (Chavez & Weisinger, 2008), market awareness (Gazley, Chang, & Bingham, 2010), and stakeholder representation (Brown, 2005). While much research exists to support the benefits half of the argument, less is known about the social penalty aspect.

Here, organizational and leadership diversity is approached from a resource-based mindset, in which differences among individuals are recognized and intentionally targeted or sought in order to remediate gaps in organizational knowledge and capability. In practice, this means that diversity is valued, in part for what people from diverse and traditionally marginalized communities can do for the organization, either by contributing value to the way markets and market dynamics are understood, in identifying and responding to changing demands of stakeholders and constituents, or by improving ideation and novelty in the problem-solving and decision-making activities. Diversity approached through this frame is reflective of an intentional, purposeful, outcome-oriented attempt to capitalize on demographic difference among organization members to better represent the community the organization serves.

Diversity as Inclusion

The *diversity as inclusion* perspective speaks to an integrative participation in the leadership and decision-making activities of the organization, affording open, transparent, and equitable participation of all members. This is not simply an approach to mitigating organizational risk nor a method for the organization to appropriate value from its members, but rather a recognition and acceptance of the fluidity of the diverse identities of people participating in the organization. Identity is recognized as a collection of intersecting dimensions and characteristics, constructed fluidly in response to cues in social, organizational, and temporal contexts. In a summary of the inclusion literature, Shore and colleagues (2011) suggest that inclusion is both a *process* of opportunity and involvement and an *outcome* in which full and equitable participation in the organization's most important aspects are key. Central here is the notion of a human capital exclusion-inclusion paradox (Daubner-Siva, Vinkenburg, & Jansen, 2017): the tension organizations face in reconciling talent management or meritocracy and diversity management in recruitment and selection decisions. Addressing the dilemma embedded in this paradox affords the potential to engage members of diverse and traditionally marginalized groups as equals, with equal opportunity and value, without imposing an expectation of assimilation or disidentification with the portfolio of characteristics that make each of us unique.

Unsurprisingly, this has been a challenge to exemplify in nonprofits, in part because it demands significant change and decoupling from societal heuristics of difference such as those represented in social categorization and social stratification perspectives. In addition, organizations tend to promote their uniqueness and exclusiveness as benefits that seem antithetical to inclusion and openness (Solebello, Tschirhart, & Leiter, 2016). Achieving inclusion has been argued to be transformational (Bourne, 2009), requiring a cultural shift in organizational values and expectations as well as a revision of structure, policy, and practice (Buse, Bernstein, & Bilimoria, 2016; Fredette et al., 2016; Solebello et al., 2016). Brewer (1991), endorsing a framework based on optimal distinctiveness theory (ODT), addresses the inclusion-exclusion tension inherent in diverse work settings by suggesting that people want to retain the facets of identity that make them unique and different while simultaneously retaining the sense of social worth and belongingness that comes from being included and valued by others in the group or social unit. This speaks to reconciling the shortcomings of previous frames, because the "diversity as inclusion" perspective takes an integrative approach in which organizations emphasize talent-management activities that create contexts in which minority group members are distinguishable as individuals and equally valued (Shore et al., 2011), neither simply assimilated nor differentiated.

These differing perspectives on diversity play out in quite different ways in the extent to which, and how, nonprofits manage planning for the succession of their board and staff leadership, as we explore in the next section.

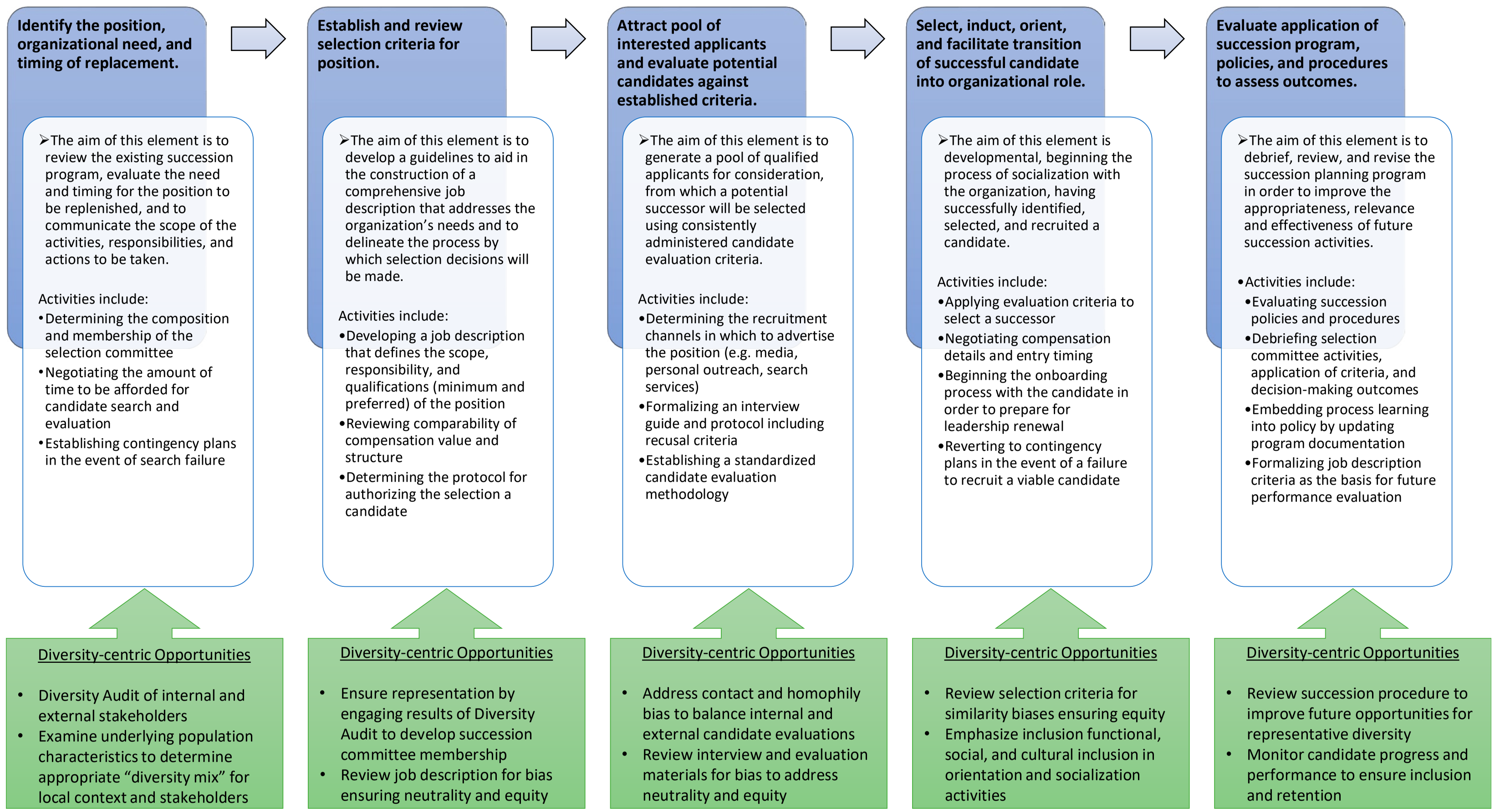
Succession Planning as a Strategic Act

Succession planning, and consideration of its implications for diversity and inclusion, is seriously underdeveloped in Canada's nonprofit sector. In a 2013 study, Ontario-based nonprofit leaders reported that their organizations lacked plans for succession, despite the same sample also indicating that 60% of these executive directors (EDs) or chief executive officers (CEOs) would depart their roles within the next five years and that 39% had risen to their current positions as a result of internal selection (McIsaac et al., 2013). Similarly, on average, fewer than four in 10 of the organizations surveyed indicated an active or proactive stance toward recruiting for diversity, although larger organizations tended to outperform smaller ones in this regard (McIsaac et al., 2013). Of the nonprofits with succession plans, 16% indicated that the scope of their efforts extended only to "the top position," while a further 16% included other senior roles as well. These findings are generally consistent with patterns found in other similar jurisdictions (Boland, Jensen, & Meyers, 2005; Tierney, 2006; Braun & Grogan, 2013; Cornelius, Moyers, & Bell, 2011). This suggests that, in general, most nonprofits will face leadership turnovers in the near future, yet they lack comprehensive systems for making future leadership-replacement decisions, regardless of an intention to promote internally or conduct an external search. So where does the responsibility for addressing this predicament lie, and how might a path forward be found so as to ensure that succession programs generate the human talent needed to satisfy organizational requirements?

A succession-planning program – an "integrated, systematic approach for identifying, developing, and retaining capable and skilled employees in line with current and projected business objectives" (Treasury Board of Canada, 2018) – is intended to address the normal or anticipated turnover of organizational members, as well as to provide contingencies in the event of unexpected or unanticipated departures of key leaders and staff members. Events ranging from anticipated retirements or impending term limits on board members to unexpected departures resulting from personal health and familial need, as well as professional opportunities arising outside the boundaries of the organization, should be planned for throughout the organization in a comprehensive succession program (Froelich et al., 2011; McKee & Froelich, 2016; Wolfred, 2011). Asking questions such as "What is our protocol for hiring our next ED?" and "How would we proceed if our ED resigned tomorrow?" provides a quick test to establish an organization's preparedness. Repeating this example for key managerial and subordinate positions adds confidence that the organization as a whole is well prepared to deal with turnover. With a whole-of-organization scope in mind, succession planning looks less like a routine act of human resource (HR) management and more like it belongs in the domain of strategic management, central to the health and viability of the organization (Pynes, 2004). In a sense, this is a system of prioritization that, in effect, creates stability in the transition of leadership, establishes the direction of the organization, communicates to stakeholders the values of the organization, and sets the strategic goals of the organization for the future. It should therefore fall to the boards of directors to take responsibility for prioritizing, monitoring, and updating succession-planning programs and activities in order to sidestep potential leadership crises and to ensure the future stability of their organizations (Tierney, 2006).

The nuts and bolts of succession planning are relatively knowable and executable with some forethought. Figure 1 outlines the key components of the succession-planning program, from identifying the targeted role or position and constructing a search committee or team, to developing a job or role description, selecting an appropriate candidate, and finally to embedding lessons learned into future succession activities. While organizations may vary in their sophistication with respect to candidate evaluation procedures (such as personality or aptitude testing, inbox tasks, or escape room activities), the general process of attraction-selection-retention remains a relatively consistent HR management practice largely imported from the corporate and governmental sectors. Figure 1 also highlights the potential opportunities afforded by the addition of a diversity-centric perspective, wherein succession-planning programs become another vehicle to enhance opportunity, representativeness, and participation to better reflect the interests and expectations of key stakeholders, including funders, staff members, clients, volunteers, and community members, at each step in the process. Consider, for example, the following two scenarios intended to illustrate the potential of sound succession-planning practices and diversity-centric thinking.

Figure 1: Illustrating the Succession Process and Opportunities for Diversity-Centric Additions



Scenario One: Succession as an Act of Efficiency

Often, succession activities such as attraction, selection, and recruitment are inhibited by outstanding commitments – either explicit and formal or implicit and assumed – to established candidates. For instance, we may have been grooming a long-serving staffer, Judy, to grow into the role of ED upon Roger's exit from the position, and this may imply to Judy that the position is hers when available. In this example, we have largely circumvented the procedures ensuring openness, fairness, and competitiveness that denote an effective succession program: one that might guide us to establish a broader pool of qualified candidates from which we might select an alternate candidate. From the perspective of diversity and inclusion, the failure to conduct an open, fair, and competitive search is tantamount to the organization relinquishing its responsibility to find the best person for the role, in favour of taking a status quo position. The decision may lead to a favourable outcome; Judy may turn out to be an excellent ED, steeped in the traditions and values of the organization, skilled at developing innovative initiatives that attract new clientele, supporters, and sources of funding, and able to manage and lead the organization's staff to greater engagement. She may also reflect the ethos of leadership diversity based on gender representation, ethno-racial demography, sexual orientation, age, physical and cognitive ability, religious disposition, or such categorization. However, few if any of these descriptors of functional (i.e. knowledge, skill, ability, experience, expertise, education, etc.) or demographic (i.e. gender, race, sexual orientation, age, ability, religion, etc.) diversity have been fully considered in her selection to succeed Roger. Rather, we have defaulted to an internal candidate with little consideration to the outside world or how our choice might impact the interface between the organization and its environment.

So why, you might ask, is this example noteworthy? First, the succession process here is a departure from codified procedure and leaves the hiring agent or committee vulnerable to implicit bias and subjectively skewed decision-making. We might end up with the best candidate, but given that we excluded all others from evaluation, we can't be certain of the quality of comparable candidates. In erring on the side of resource efficiency (i.e. it is nearly costless to make such an internal promotion) and familiarity (i.e. the devil you know), the organization has cut itself off from a potentially valuable source of expertise. Finally, from Judy's perspective, it is more likely than not that her wages will lag those of her field comparators. Because she is promoted without search, her compensation will likely be modelled on Roger's, with little consideration of market forces, and is therefore dependent on whether the board of directors has undertaken regular compensation reviews for the position and whether Roger was effective in negotiating and maintaining a competitive compensation package.

Scenario Two: Succession as an Act of Strategic Management

Establishing and maintaining a regime of oversight and evaluation opens possibilities in terms of succession planning, as it affords routine performance assessment by which to review the current position holder's skills and abilities for relevance and potential gaps, in the face of a changing environment. In short, succession viewed as an opportunity highlights the potential to assess the needs of the role and its boundaries; the knowledge, skills, and abilities of both the current incumbent and any future successor; and the person–job fit to ensure that the organization has the capabilities it requires to be successful today and into the future. For example, in considering how to proceed at the conclusion of Rumina's final term as foundation president, the board of directors recognizes that the organization has a series of talented mid-management candidates, some of whom have been groomed for possible promotion to senior ranks. Rather than simply conducting an internal search and choosing the most suitable candidate to replace Rumina in her role as president, the board recognizes the opportunity to audit, and redefine where necessary, the duties, responsibilities, and qualifications needed to fulfill the requirements of the position. Here we are looking to assess whether the position as previously delineated is still appropriately defined, and to determine whether the prior knowledge, skills, and abilities associated with the position remain relevant. Once redefined, a new job description can be constructed, serving as a means to promote the position and assess whether an internal search will generate a sufficiently large pool of candidates from which to make a selection decision. If it does not, the organization has afforded itself an opportunity to conduct an external search, with a more clearly understood sense of its internal talent.

From the perspective of diversity and inclusion, this succession procedure conforms to better practice in the field of HR management, ensuring that the organization is consistently following the tenets of open, fair, and competitive candidate evaluation throughout the recruitment process. It does not guarantee the organization that any one candidate will be selected on the basis of diversity alone, but it does ensure a more equitable approach to increasing opportunity, representativeness, and participation throughout with an enlarged applicant pool. Additionally, developing and maintaining a codified job description, a systematic approach to promoting the position, and a consistent candidate-evaluation protocol improves the odds that the succeeding candidate will be well suited to address the needs of the organization.

In this instance, several aspects warrant consideration. First, as noted above, the succession procedure ensures that the organization is consistently following the tenets of open, fair, and competitive candidate evaluation throughout the recruitment process. From the successful candidate's perspective, the process confers legitimacy of the person and her or his capabilities to fulfill the requirements of the position. Next, the organization has opened itself to a broader pool of candidates, affording itself the opportunity to attract and evaluate candidates who might otherwise be overlooked or remain unknown, thereby avoiding obstacles stemming from not knowing what the organization needs, not knowing what talent is available in the market, and not knowing whether the current compensation for the position is competitive, all of which may lead to a suboptimal outcome. Although internal candidates who may have been unsuccessful in competing for the position could be discontented by the organization's decision, the rationale for the decision is relatively transparent and predicated on an open, fair, and competitive selection procedure. Additionally, the organization is less likely to find itself in a legal dispute stemming from accusations of discrimination or human rights violation, where candidates have rights to redress, including in the form of tribunal and judicial remedies.

To be clear, neither example is reflective of a perfectly diversity-neutral approach, but perhaps that's the point. Moving to a more diverse, inclusive, and equitable organization, particularly as it relates to organizational leadership, is not likely to be a straight line (pardon the pun). In part, the inclusion of a series of diversity-centric opportunities associated with each stage of the succession-planning program outlined in Figure 1 is intended to tease out the many openings and obstacles that progress will afford and overcome.

Conclusion: Moving Targets, Moving Forward

In the end, what is worth considering is the capacity to re-envision how we conceive of leadership succession, not as a system of talent replacement, but rather as an opportunity for organizations, as well as their internal and external stakeholders, to bring to life a process of values renewal. At each step in the succession process outlined in this chapter, we have examined how to engage in meaningful intervention that reflects both the needs of organizations and the opportunities afforded by greater leadership diversity, whether in the example of cultural and diversity audits during the first evaluative steps or in later stages, where inclusion-oriented onboarding and socialization practices are possible. All of these are predicated on the three pillars with which we began our chapter: diversity, inclusion, and equity. They require stakeholders, their board representatives, and the senior leaders and leadership teams of organizations to recognize the importance of these pillars; engage in activities that embed values into action; and perform the demanding work of institutionalizing these ideals in the planning, procedures, processes, and practices of the organization.

For the nonprofit sector now facing an impending shortage of viable talent, addressing succession through the lens of diversity and inclusion – or alternatively addressing diversity and inclusion through the lens of succession planning – presents an important opportunity. It could enable nonprofits to find relief from this leadership shortage by identifying and attracting new sources of talent. But it could also mitigate the risks associated with regulatory noncompliance, develop competitive advantage by recognizing and engaging new communities of stakeholders, and develop and manage richer pipelines of talent by including and retaining otherwise overlooked or unconsidered leadership candidates. Building a system that recognizes and monitors the distribution of opportunities, benefits, and privileges will not be costless, whether in organizational, personal, or perhaps financial terms. However, the cost of not emphasizing the requirement to create fairer and more just systems of opportunity and evaluation may, in the end, result in far higher opportunity costs than we are prepared to recognize or estimate today. After all, isn't that part of the sector's *raison d'être*?

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Biography

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Dr. Christopher Fredette is an associate professor of management and strategy at the University of Windsor's Odette School of Business. Chris is an active researcher in the nonprofit sector, focusing on boards of directors and the role of power, diversity, and inclusion in shaping change in governance and leadership effectiveness.

The People Environment: Leaders, Employees, and Volunteers

Chapter 17

Human Resource Management in the Canadian Nonprofit Sector

Kunle Akingbola, Lakehead University
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Nonprofits are complex and dynamic organizations. Their essential characteristic is defined largely by the need to evolve and adapt. Nonprofits evolve in response to emergent problems and issues in the society, and they must adapt to actualize their missions and values. People are perhaps the most critical ingredient in managing the complexity of these organizations and fostering their ability to adapt to change; how a nonprofit organization manages these human resources is fundamental to its ability, or inability, to achieve its mission and values. It is also important for nonprofits to create meaning in the social-exchange relationship with employees. Moreover, significant shifts in the nonprofit sector – including changes in funding, community connections, and professionalization – over the past three decades has heightened the need to focus on the management of human resources. For example, as the sector seeks to address impending succession challenges, related to the retirements of highly experienced employees, and implement strategies to attract millennials, who desire meaningful work, the importance of human resources management (HRM) is critical to nonprofit organizations.

This chapter examines HRM in nonprofit organizations, with an emphasis on strategic human resources management (SHRM) – that is, aligning HR practices with strategy by attracting, recruiting, and retaining employees to achieve the goals of organizations. It explores what is different about HRM in Canadian nonprofit organizations and the need to address and manage the unique drivers in order to develop and implement SHRM. We also highlight options for HR support in the typical small nonprofit, and the HR challenges – such as retention, leadership succession, rewards, and HR competencies – that will need to be addressed in the SHRM of a nonprofit. We begin with an overview of HRM and its roles in a nonprofit, then consider drivers that necessitate SHRM in organizations and the impact of strategic direction on HRM in nonprofits.

Human Resources Management: An Overview

The management of human resources has been remodelled significantly over the years to meet the emergent needs of nonprofits. This shift in concepts and practice was driven initially by long-standing debate and confusion over the definite role of HRM and was further influenced by the pace of change in the sector and changing theories and application of strategic management. Although HRM has progressed from the days of performing purely administrative personnel functions, practitioners and academics continue to emphasize the need for HRM to transform to better meet the needs of organizations and keep pace with modern workplaces (Cawsey & Templer, 1998).

In contemporary terms, HRM is the systematic management of people with an overall objective of supporting the goals of the organization. It is a continuous process. Thus, HRM has been defined as the process of managing human talent to achieve an organization's objectives (Belcourt et al., 2017). HRM encompasses a broad range of specific practices, policies, and overarching philosophies pertaining to the management of human resources in organizations (Jackson & Schuler, 1995). HRM practices include functions such as recruitment, training, compensation, and performance management. The policies guide and direct the practices, while the philosophies underline the values and principles that inform both the practices and the policies. According to Jackson and Schuler (1995), the practices, policies, and philosophies ideally combine to form a *system* that attracts, develops, motivates, and retains employees and ensures the effective functioning of the organization and its members. The HRM system enables an organization to effectively deploy its workforce, which in nonprofits includes employees and volunteers. The link to organizational goals reinforces the importance of HRM in the *strategy* of the organization and underlies the concept of strategic human resources management.

Strategy and Nonprofit Strategy

Strategy entails critical actions that are deployed to achieve certain goals related to how the organization would deliver value to "customers" and gain competitive advantage (Grant, 2012). It is the process of taking an organization from its present position to a desired organizational effectiveness state; that is, moving from point A to point B in terms of its stated objectives. With strategy, the leadership of the organization is attempting to answer fundamental questions such as a) Where are we now as an organization? b) Where are we taking the organization? c) Are our products/services what our customers/clients need or want? d) How do we achieve our strategic goals? and e) How do we implement our strategy? (Burack & Mathys, 1996).

For nonprofits, strategy is as an integrated set of actions and processes that are developed and implemented to enable the organization to use its resources to deliver value to users and stakeholders, adapt to change, and gain competitive advantage (Akingbola, 2013). Essentially, strategy indicates that the nonprofit is working to achieve the goals that are important to stakeholders. The example of Warden Woods Community Centre in Toronto is illustrative.

Figure 1: Nonprofit Strategy Is Important to Stakeholders

Spotlight: Warden Woods

Warden Woods Community Centre, a nonprofit with a mission to build caring, compassionate, just, and interdependent communities in southwest Scarborough, stated that its strategy is to leverage three components of its organizational goals: deepen community engagement, improve organizational viability and relevance, and strengthen advocacy, collaboration, and strategic networking.

Strategic Human Resources Management in Nonprofits

Although it is long overdue, SHRM is slowly emerging as a major management issue in nonprofit organizations. Similar to the for-profit and public sectors, nonprofits understand the importance of strategic management in shaping organizational performance. Nonprofit managers recognize the need to provide quality service to clients and the community and to meet the expectations of their stakeholders. They are intimately aware that many of their clients and users of their services are marginalized and vulnerable members of the community. Managers also know that a good relationship with funders is important to achieving the mission of their organization. And they understand the links between the diverse and relevant components of the organization and how a strategic approach is important to engage employees, volunteers, and the community and to manage cost simultaneously. To support the mission, meet the performance expectations of stakeholders, and address challenges (see Figure 2), it is imperative that a nonprofit's activities are aligned with the implementation of its strategy. Arguably, more than in the for-profit and public sectors, what is most critical in the development and implementation of strategy for nonprofits – what will integrate the components of a nonprofit and help to facilitate its mission – is the management of human resources. This is the foundation of strategic human resources management in nonprofit organizations.

Figure 2: Employee Turnover

Employees Leaving Nonprofit Organizations

While there are no statistics about why nonprofit employees in Canada leave the organizations they work for, in my seven years working as a consultant with nonprofits across the country, I have begun to notice a disturbing trend whereby employees, especially younger ones, walk away from their jobs in frustration, despite being highly committed to the organization's cause and having the skills to do the job.

Basically, the human and social capital characteristics of nonprofits include the skills, knowledge, behaviour, and social networks of employees and volunteers. The link between SHRM and nonprofit HRM (NHRM) is how *nonprofits manage these human and social capital characteristics and the HRM systems deployed to facilitate the mission and strategic goals of the organization* (Akingbola, 2013). This means a nonprofit's effectiveness is dependent upon the extent to which it can integrate its core characteristics (the mission and values), the unique context (employees, volunteers, and stakeholders), and external factors (including government policy, community needs, and funding) in the development of HRM practices. It is particularly important to highlight six characteristics that play a major role in defining the uniqueness of NHRM and the drivers that influence such practices.

Characteristics of Nonprofit HRM

There are many factors at play in shaping HRM in nonprofits. Not all factors are equal, however. Some are distinctive drivers of NHRM strategies and practices, and more importantly, some define the essential characteristics of NHRM, those that make it unique. These essential factors are 1) mission and values, 2) labour that is intensive, 3) attraction and motivation, 4) nonmonetary compensation, 5) competencies, and 6) decision-making.

Mission and Values

The mission is what nonprofit organizations are all about (Quarter, 1992). The causes and the people that a nonprofit serves through its mission are the foundation of strategy. Similarly, the values of a nonprofit emphasize the overarching principles and beliefs that guide organizational activities and management decisions. In nonprofits, mission and values are not merely statements: they define the organization and the nature of interactions with stakeholders, including employees and volunteers. The centrality of mission and values means that they drive and are embedded in the HRM systems. Each nonprofit must carefully deploy its human capital to achieve the mission of the organization, and employees are expected to deliver on performance and demonstrate skills and behaviours that facilitate the mission and the organization's strategic goals.

Labour That Is Intensive

The social goods and services that nonprofits provide are labour intensive, and their human resources are the core asset (Akingbola, 2006; Light, 2003). Nonprofits cannot simply replace their employees and volunteers by investing in technology or automating their processes, even though technology plays an increasingly important role. The reality for many nonprofits is that their people are the only or primary organizational resource. Hence, the ability of a nonprofit to perform and generate value for stakeholders depends significantly on the knowledge, skills, and behaviour of its employees and volunteers. Nonprofit managers must pay particular attention to the HR practices that will help the organization to attract, recruit, retain, and develop the human resources, not only with suitable competencies but also with commitment to the mission and values of the organization. Basically, employees and volunteers must have a high degree of person–organization fit, and the HR practices must be designed and implemented to reinforce this objective.

Attraction and Motivation

Employees are attracted to and often choose to work for nonprofits because they identify with the mission and values of the organization (Brown & Yoshioka, 2003). They tend to perceive their work as not just employment, but as an opportunity to serve the public good, contribute to worthy causes, and actualize their individual values. The inherent moral attachment plays an important role in the motivation of employees. This characteristic emphasizes that the HRM goal of attracting and motivating employees who are committed to the nonprofit's mission is less of a challenge than the need to sustain motivation (Kim, 2005). As a result, HRM needs to develop and implement practices that leverage the social-exchange relationship – the voluntary, reciprocal sense of obligation and behaviours that enhance motivation and connection between the employees and the organization (Gould-Williams & Davies, 2005). In particular, millennials look to organizations to provide meaningful, altruistic, and competitive compensation to attract and motivate them (Deloitte, 2015; Johnson & Ng, 2015).

Nonmonetary Compensation and Reward

The attraction and motivation factor is also related to the question of compensation in nonprofit organizations. Research suggests that nonmonetary, intrinsic rewards are particularly important for nonprofit employees (Handy & Katz, 1998; Jobome, 2006; Leete, 2000). In general, nonprofits are not able to compete with for-profit and public sector organizations in terms of monetary compensation; pensions have also been lacking and the contract-based work is often precarious (see Chapter 18 by Uppal and Febria and Chapter 19 by Thériault & Vaillancourt). Consequently, nonprofits tend to offer a total compensation package that includes more generous benefits such as paid leave, vacation, and family leave than for-profit organizations (Pitt-Catsouphes, Swanberg, Bond, & Galinsky, 2004). To develop HR practices, nonprofit managers must understand the importance of nonmonetary compensation and rewards as key characteristics of NHRM.

Competencies

Nonprofits require some competencies that are unique to the sector. In addition to basic management competencies such as budgeting and planning, employees and managers must manage volunteers and collaborate and navigate relationships with advocacy groups and funders (Akingbola, 2006; O'Neill & Young, 1988). Nonprofit employees and managers thus require a mix of knowledge, skills, and attitudes that includes three broad categories: job-specific competencies (e.g. planning and financial), environment-specific competencies (e.g. fundraising, program management, advocacy), and mission and values orientation (Akingbola, 2013). Training needs to meet these operational imperatives that require diverse competencies (McMullen & Schellenberg, 2003b; Parry et al., 2005); the knowledge, skills, and attitudes acquired through training can further foster the link between employees' aspirations and the organizational mission (Pynes, 2004).

Decision-Making

Nonprofit organizations are built on the premise of collective and participatory practices. Nonprofits thus tend to embrace employee involvement in decision-making, since such participation is consistent with their mission and values. And employees expect to have more opportunities to be involved in decision-making, through teams and committees, than their counterparts in for-profit business organizations (Kalleberg et al., 2006). Failure to practise some form of employee participation and incorporate this into NHRM could lead to disgruntlement. A positive consequence is that nonprofits often have inherently high-performance work practices that are part of the characteristics of the organization. Effective HRM draws on the strengths of both participation and high-performance practices.

Together, the characteristics of nonprofit organizations are the distinctive building blocks of NHRM, which will provide the foundation for the development of SHRM. The characteristics also highlight that the need for SHRM is heightened in nonprofits and is important in enhancing the ability of nonprofits to attract, recruit, develop, deploy, motivate, and retain human resources.

Figure 3: Challenges

Leadership Challenges in Nonprofit Organizations

1. Managers are passionate about the cause but may lack the skill sets required to effectively manage, engage, and guide employees for optimum performance.
2. Unrealistic expectations about what the senior leader of a nonprofit is meant to do.
3. The challenge of juggling the dual roles of both management and leadership, especially in small and mid-sized nonprofits.
4. Insufficient resources and lack of any particular management training, especially when it comes to engaging, motivating, and managing employees.

Drivers of Nonprofit HRM

Environmental Factors

The characteristics of NHRM that we discussed above always work in tandem with factors in the external environment to shape the nature of SHRM that is deployed in the sector, and they are the sources of the opportunities and threats that underlie HR practices. This means that nonprofit practitioners must carefully analyze what is going on in the external environment of the organization. The rapid pace of change – including changes in emergent community needs, program delivery, competition with nonprofit and for-profit organizations, revenue mixes, and accountability requirements – are all relevant factors in the environment that influence SHRM. We focus on four external factors that emphasize why nonprofit organizations must deploy the tools of SHRM to achieve their goals.

Economic

The economy offers an opportunity and poses a constant threat to nonprofit organizations, as it plays a direct role in the level of donations and funding available. An economic boom could mean a spike in donations and funding from foundations and governments, while a downturn would seriously shrink funding opportunities and donations. Unfortunately, an economic downturn is also the time in which nonprofits are likely to experience an upsurge in demand for services. Thus, HR practices must balance the need to attract and retain the talent required to provide and sustain services with the challenges of funding cuts and decreased donations.

Political

Many of the services provided and causes advanced by Canadian nonprofits, such as poverty reduction, education, environmental protection, and social justice, are inherently political issues. Moreover, economic swings are often accompanied by political undercurrents and changes in public policy, which then have direct implications for the HR practices of nonprofit organizations, as noted in Figure 4.

Figure 4: Public Policy

Impacts of Public Policy on Nonprofit HRM

A change in public policy could create a need for a nonprofit to develop a new service that the public policy has made a priority and a corresponding change in HRM to align it with the needs of the new service. Recruitment may need to emphasize that new employees have the competencies required to provide the new services, while training must ensure that any performance gaps in the competencies of current employees are addressed.

Sociocultural

A major social-environment factor affecting nonprofits is the aging population, which has both negative and positive consequences for NHRM. On one hand, the demographic change has increased the demand for services that serve older baby boomers, such as meals-on-wheels and adult day services, possibly requiring different skills or more volunteers. On the other hand, due to the extension of boomers' working careers and abrogation of retirement age, the pool of talent available to nonprofits has expanded. It means that nonprofit organizations have an opportunity to leverage the talent and vast experience of the boomers but must also develop and implement HR practices, specifically in benefits and compensation, to help to motivate and retain them.

As noted in Figure 5, Indigenous communities are growing in many parts of the country, particularly in urban centres, giving rise to new Indigenous-led nonprofits that are developing distinctive, culturally grounded HR practices.

Figure 5: Indigenous-Led Charities, Unique HR Challenges

Spotlight: Wabano Centre for Aboriginal Health

Ottawa's Wabano Centre for Aboriginal Health provides a wide range of medical clinics, social services and support, and youth programs for Ottawa's 40,000-plus Indigenous people. The centre takes a unique approach to care by incorporating the teachings, culture, and traditions of Indigenous people into all of its programs and services.

Established in 1998, the organization has, over the last few years, experienced significant growth in revenues and in the number of programs that it offers. This is in part because the Report of the Truth and Reconciliation Commission in 2015 raised awareness about the effects of colonialization and the impacts of the residential school system, leading to some changes in policies and programming by the federal government and the Government of Ontario. More resources flowed to community-based, Indigenous-led organizations like Wabano, which has a demonstrated track record of providing holistic, culture-based, trauma-informed care.

Growth in revenues and increasing demand for services have seen the number of employees go from 80 in 2017 to 116 in 2019. One HR director oversees the recruitment, selection, and hiring process, working closely with other department managers to identify the best fit for their needs.

As an Indigenous-led organization, Wabano gives preference to applicants of First Nations, Inuit, and Métis ancestry. It looks to hire people with the requisite competencies for each position, but in addition, it seeks out those with lived experience and a "demonstrated knowledge, sensitivity, and awareness of the history, culture, and unique needs of urban Indigenous people." This adds another layer of complexity to their recruitment and selection processes. Because the labour market is competitive in the region, with the federal government and other agencies also looking to hire people of Indigenous descent, Wabano has a mix of Indigenous and non-Indigenous employees with varying degrees of knowledge about and sensitivity to Indigenous history and culture. Their onboarding process includes educating all new employees about their unique model of care and the importance of integrating culture, in all its dimensions, into all of their programs and services. Managers are also tasked with actively supporting their employees in their journeys to build knowledge about Indigenous history, cultural practices, and teachings, be it through independent study or through training sessions provided to their teams. The organization also strives to avoid silos and to integrate their services and programs across the various departments, which requires an active focus on coordination by the management team. All of this adds up to more duties and responsibilities for the HR director and the department managers, without the benefit of supplementary resources to support Indigenous cultural awareness, training, and education for their employees.

Technological

As in other sectors, technology is an important external-environment factor in nonprofits, playing an important role in increased accountability and efficiency. Beyond efficiency, technology can enhance the effectiveness of HR practices, including the benefits that are valued by employees. And the widespread use of social media offers an opportunity to build networks that connect employees, volunteers, and stakeholders.

These external drivers – economic, political, sociocultural, and technological – are critical in the development and implementation of HRM practices in nonprofits, especially those with unique challenges (see Figure 5). The intricate interaction between the external-environment drivers and HRM requires that nonprofit practitioners monitor the constant change that influences how the organization deploys its human resources and position HR practices to be aligned with the direction of the external environment.

Nonprofit Drivers of HRM

A number of sector-specific environment factors also influence the effectiveness of NHRM. These include government, competition, funding, accountability, and community needs (Akingbola, 2013).

Government and Competition

The government can be a major challenge for many nonprofits. As a partner in the provision of social goods, the government is the number one source of revenue for many nonprofit organizations (Scott, 2003: Chapter 2). Thus, the HR practices developed in nonprofits must reflect the contingencies of the relationship with the government. For example, nonprofits must often use temporary contract staffing practices due to the short-term nature of government funding. Similarly, increased competition for funding, with other nonprofits as well as for-profits, is now the norm in the sector (Castaneda, Garen, & Thornton, 2008). Competition also extends to the ability of nonprofits to attract and retain from the limited pool of people who have the competencies they require, buy into their mission, and are willing to work under what are often uncertain, short-term contracts.

Funding

Many Canadian nonprofits are in a perpetual state of funding crisis. Funders, both public and private, have transitioned to a contract funding model with specific scope and short-term focus (Smith & Lipsky,1993). The implication for nonprofits is that the funding crisis is played out in the short-term emphasis of their HR practices. The recruitment, training, and compensation practices that are implemented for the funding available in a current fiscal year could be discarded within a year or two based on the requirement of the funder (Akingbola, 2004; Boris et al., 2010; Foster & Meinhard, 2002).

Accountability

Funding bodies, particularly governments, are emphasizing rigorous accountability practices to demonstrate results and value-for-money. Although accountability is important to ensure the effectiveness of services, most nonprofits simply do not have the financial and human resources to meet the often-stringent requirements. Questions about the validity and reliability of accountability measures are also a challenge. What to measure, how to measure, and how to report the indicators of service outcomes are routinely in flux (see Chapter 33 by Ruff) and are a significant source of job dissatisfaction (Howe & McDonald, 2001).

Changing Needs of the Community

Nonprofit organizations are constantly adapting to the emergent needs of the community. From economic disparity to social justice and health issues, nonprofits often fill the gaps where the government cannot meet the needs and businesses do not see a profitable venture. The emerging needs of the community shape the pace of change and the adaptive strategy of nonprofit organizations, including HRM. How nonprofits foster change-readiness depends significantly on their HR. As demands evolve, organizations must build a culture of change management and be strategic in their HRM practices to be able to continuously adapt to change.

In scanning the environment and analyzing these factors, nonprofit practitioners are better able to position and deploy HRM to drive the performance and mission of the organization.

NHRM Strategy and Its Implications

Over the past three decades, research has enabled us to learn more about NHRM. It has shown that larger nonprofit organizations, those affiliated with a national organization, younger, and educational nonprofits are more likely to link strategy to their HR practices (Guo et al., 2011). Research has also found that nonprofit organizations conform with the rule-like norms of the sector to gain social legitimacy from stakeholders, especially from funders, accreditation agencies, and the local community (Hager & Galaskiewicz, 2000). This process is manifested in the HR management through the adoption of practices that have been deployed by other nonprofits and are commonly accepted as "good practice" (Kalleberg et al., 2006).

To provide concrete examples, Table 1 highlights the implications of strategic decisions for NHRM practices. The context of each organization would factor in to how the implications play out in the organization.

Table 1: Implications of Strategic Direction for NHRM

Strategy – A focus on:	HR Implications – An emphasis on:
Differentiating our service based on quality	Training, internal career path, recruitment at entry level, and performance management
Innovation in our services	Recruitment of top talent at all levels, cross training, teams, incentive compensation
Partnership to grow our services	Teamwork, recruitment based on industry knowledge, employee involvement
Extending our services to new regions/states	Performance management, internal career path, project-based teams
Client needs where services are weak	Training, project-based teams, incentive compensation
Cost-cutting and delivering more value to clients	Training, performance management, HR analytics
Entrepreneurial activities to support our nonprofit services	Recruitment, teams, incentive compensation
Technology to change how we provide services	HR analytics, training

Differentiation Strategy

A nonprofit that focuses on a strategy to gain competitive advantage by emphasizing quality of service must deploy a strong training strategy to actualize its goals. Employees must be equipped with the knowledge, skills, and ability to foster the best practices and continuous improvement that are key to quality service. Also important is a performance management system that provides an enabling process, tools, and structure to link employee performance to organizational outcomes. The recruitment and selection of new employees must focus on the talents required to enhance and sustain the focus on quality.

Innovation Strategy

This strategy requires the nonprofit organization to be ahead of the pack in the development of new programs and services. The recruitment and development of top talent must be core components of the NHRM strategy. Employees must possess top-notch skills, including the ability to work within an innovative team structure designed to identify emergent community needs, address system issues in services, and develop new services in an efficient way. Compensation strategy must be designed to reward and recognize the intrinsic motivation of employees. However, some level of extrinsic reward should be included in the compensation strategy to incentivize the employees.

Partnership as Growth Strategy

It is not uncommon for nonprofit organizations to collaborate with other nonprofits to survive. However, many nonprofit organizations use partnership as the key component of a growth strategy. For these nonprofits, HRM must emphasize teamwork in recruitment, training, and compensation. HR practices that enable employee involvement are crucial to leverage employees' knowledge of the sector and the local community. New employees are recruited based on their experience and knowledge of the industry, among other factors.

Extending Services as Growth Strategy

Nonprofit organizations sometimes seek and add new geographic areas to their scope of operations. This could be an integral part of the growth strategy or an opportunity facilitated by the availability of new funding. Regardless of the factors that underlie the addition of new regions, when a nonprofit expands services to new geographic areas as a growth strategy, the NHRM must support the strategy with performance management to enhance the effectiveness of the new locations. Also, the selection must include the opportunity to create career paths for employees. Project-based teams are used to enhance employees' learning and performance.

Identifying Where Services Are Weak as Growth Strategy

Similar to extending services, some nonprofits grow by scanning the environment to identify services that are inadequate for clients and then improving those services. NHRM must provide employees with the necessary training and skills to provide the new services. An incentive compensation plan is also important to foster employees' intrinsic motivation to further the mission and values of the organization. Project-based teams are also important.

Cost-Cutting as Strategy

The need for efficiency is common in nonprofit organizations, irrespective of size and scope. The funding regime means that nonprofit organizations are more likely to be cutting costs to adapt to the needs of funders than developing long-term strategic plans. At the same time, they must continue to find ways to deliver value to clients. By necessity, many nonprofit organizations deploy cost-cutting as a competitive strategy. Thus they need NHRM to provide training that equips employees with adaptive knowledge and skills that are vital in an environment in which efficiency is crucial. They need cross training to fit into different jobs based on the needs of the organization. HRM analytics is particularly important to provide information for decision-making and feedback on performance.

Entrepreneurial Activities as Strategy

Nonprofit organizations develop and implement entrepreneurial programs and projects primarily to support their social goods and services. For many nonprofit organizations, entrepreneurship is the core of their competitive strategy. They engage in entrepreneurial ventures to generate revenue, which is reinvested to serve the mission. Nonprofit organizations also engage in entrepreneurship to grow in scope and size. For all of these objectives, NHRM must help to recruit employees who possess entrepreneurial skills and experience. Also, some form of incentive compensation, including intrinsic incentive, is important to drive the entrepreneurial spirit. A consistent team approach should be emphasized as an NHRM philosophy.

Technology to Change Service Delivery

This is more a way of improving service delivery than a strategy. Because of the social goods and services that nonprofit organizations provide, it is not likely that technology will replace their services soon. NHRM is integral in the process of using technology to enhance service delivery. NHRM must provide the training relevant for the use of technology, including skills to better support clients with technology. HRM analytics will help the organization to collect and integrate outcome and employee metrics.

The challenges in the unique environment of nonprofit organizations drive the strategic decisions practitioners deploy to facilitate the mission. Therefore, it is critical to align NHRM with the strategic decisions to ensure the achievement of the goals and facilitate the effectiveness of the organization. A strategy that is not aligned with NHRM is a non-starter and a recipe for failure, with some of the common mistakes of nonprofit managers indicated in Figure 6.

Figure 6: Common Mistakes

Common NHRM Mistakes Managers Make in Nonprofits

1. Failure to communicate where the organization is headed and what it wants to accomplish.
2. Lack of clarity about roles and responsibilities.
3. Inability to provide clear direction.
4. Failure to provide regular feedback on performance.
5. Failure to react to workplace problems and issues in a timely manner.
6. A tendency to treat employees equally but not equitably.

NHRM Support

NHRM continues to be a major challenge for many nonprofit organizations. This is due in part to the small size and limited resources of most nonprofit organizations in Canada (McMullen & Schellenberg, 2002). This is particularly apparent in the inability of many nonprofit organizations to access HRM expertise, tools, and technology. Hence it is not uncommon for nonprofits to have to address HRM legal issues without paying attention to the content and process of HRM. The following are some of the options available for small nonprofit organizations that cannot afford HR staff to access HRM support.

Shared HR Staff/Department

Two or more nonprofit organizations can collaborate to share the services of an HR professional or department. Shared services are already common among small nonprofit organizations for administrative and operational support (Dart, Akingbola, & Allen, 2019). Extending such collaboration to HRM will enable the partners to not only share the expertise and services of the HR professional, but also to exchange ideas on best practices and policies. Shared HR services can be a cost-effective way of accessing HR support for small nonprofit organizations.

HR Consultant

Many nonprofit organizations use the services of external HR consultants on a flexible, as-needed basis. These consultants can provide valuable input to guide major HR initiatives, including planning and evaluation of processes. However, depending on an external consultant for basic HR support risks it becoming more of a project rather than a core component of the organization's operations. Also, external HR consultants may not be attuned to internal politics, which can affect the implementation of the organization's HR practices.

Volunteer Board Members

Many nonprofit organizations look to their boards of directors to meet their needs for HR support. As part of this process, the organization specifically targets and recruits volunteers with professional backgrounds in HRM. The organization will then ensure that HRM issues are discussed regularly at board meetings in order to manage the day-to-day aspects. One downside to this option is the elevation of operational issues to governance, which could potentially distort the focus of the board (see Chapter 8 by Charters). In addition, basic HRM issues are put on hold until the board, or the board's HR committee, meets.

Trained Managers

There are different angles in this option. Nonprofit organizations can support a manager or managers in gaining HRM competency through part-time courses and training. The managers are then assigned to provide HR support, typically as a secondary role in addition to their primary position. Alternatively, the organization can provide basic HRM training for a select group of managers who will then be required to provide HRM support in the organization. The managers will operate as a team, collaborate on HRM projects, and continuously update their knowledge of HRM. One experiment for enhancing HR capacity, the Muttart Foundation Cluster Project, is described in Figure 7.

Figure 7: The Muttart Example

The Muttart HR Cluster Project: A Model to Draw Upon?

Most small and mid-sized charities don't have the resources to hire in-house dedicated HR experts. The executive director takes on most, if not all, of the related responsibilities of recruiting, hiring, onboarding, directing, training, and evaluating all employees, without the benefit of HR tools, training, or knowledge. As a result, they often don't take a systematic, structured approach to hiring, managing, and retaining their talent. When HR issues or problems arise, the response can be ad hoc, slow, inequitable, or just plain wrong from a legal perspective.

Between 2002 and 2006, the Muttart Foundation led an innovative project that provided human resources advisory, consulting, and support services to two groups of social service charities in Calgary and Edmonton. Each of the clusters had access to the services of a full-time HR professional to help them address their specific HR issues and challenges. But unlike in a pure shared-services model, the executive directors in each cluster were expected to meet on a regular basis with the specialist to share information, build collaborations, and learn from each other's experiences to build collective capacity in addressing HR matters and moving toward a more strategic approach to HR management over time.

The subsequent evaluation of the initiative indicated that the project had a positive impact on all members: "As a result of the HR consultants' expertise, and to a lesser extent the cluster meetings, the agencies have undergone a varying degree of change. The most significant include having a new connection or working relationship with agencies of similar needs; improved internal processes and staff skills, particularly in communication, hiring, performance management and documentation; greater confidence and trust between staff and management; improved confidence in the executive director; the downward shifting of decisions; and a surer understanding of what is needed to move the agency forward or in another direction. Some agencies have seen a reduction in staff turnover."

The environment in which charities work has changed significantly since this initiative ended. Unemployment is low, competition for talent is fierce, and the workplace must acknowledge and respond to the demands and needs of different generations of workers. Executive directors all too often work in isolation from one another. There is benefit in building relationships of trust to support one another in addressing similar HR issues and getting professional support in building a more strategic, systematic approach to deploying the talent within their organizations.

Conclusion

What does the future hold for NHRM? More specifically, how will nonprofits be able to align the requisite HRM practices with strategy to achieve their missions in the face of continuously emergent challenges in the sector? This question encapsulates the recurrent theme throughout this chapter: that HRM is unique in nonprofit organizations. Thus, the lingering challenges of how nonprofit organizations attract, motivate, and retain talent and align their human resources with their missions and values as effective practices and processes are unique. It is therefore important for both research and the practice of NHRM to reflect the characteristics of the organizations, their employees, and the drivers in the external environment that shape their activities. For practitioners, the starting point is to understand the fundamentals of NHRM but also be attuned to the changing demands of the environment. A key task, then, is to adopt (and adapt) a strategy that aligns practice, resources, and mission and implement relevant HR practices to deliver on this strategy. In all, the intent of this chapter is to offer a synoptic overview of what is different about NHRM and how to address the challenges with relevant HR practices while incorporating the unique characteristics, challenges, missions, and strategic objectives of nonprofit organizations.

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The People Environment: Leaders, Employees, and Volunteers

Chapter 18

Decent Work in the Nonprofit Sector

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Ontario Nonprofit Network

The concept of "decent work" – a global movement for fair and productive work – is being applied to the nonprofit sector in Canada. This chapter provides a brief background on the nonprofit sector labour force, and then dives into characteristics of the sector that impact employment and create barriers to implementing decent work. Recognizing that decent work is possible and that there are solutions and strategies at the organizational, network, and systems levels, along with a value proposition that everyone in society benefits from decent work in the nonprofit sector.

Building a Decent Work Movement

Developed by the International Labour Organization (ILO), "decent work" is a way in which to conceptualize fair, equitable, and stable work (ILO, 2018). More specifically, decent work consists of opportunities for work that are productive and deliver a) fair income, b) security in the workplace and social protections, c) better opportunities for personal development and social integration, d) the freedom to express concerns, organize, and participate in the decisions that affect workers' own lives, and e) equality for all workers. The ILO's decent work vision and agenda is a commitment to developing high-quality jobs and working collectively to ensure that structures, regulations, and practices are in place to support organizations and individuals (Lalande & Ymeren, 2015). Decent work is not just about meeting minimum requirements; it is also about creating workplaces in which diverse people can thrive and recognizing the positive impact decent workplaces have on communities.

It is a global movement where individuals, organizations, governments, and communities recognize that decent work is a critical way to address many transnational social issues, such as poverty, and to promote inclusive and sustainable economic growth (ILO, 2018). The global economic crisis of 2008/09 in particular emboldened policy-makers around the globe to stress the urgency of quality jobs with social protections and respect for rights in the workplace (ILO, 2018). Decent work is also embedded in the United Nations' Sustainable Development Goals, a universal call to action to end poverty, protect the planet, and ensure that all people enjoy peace and prosperity.

In Canada, the decent work movement is slowly growing across sectors. Organizations in Ontario, such as the Atkinson Foundation, the Workers' Action Centre, the Association of Early Childhood Educators, the Decent Work and Health Network, and the Better Way Alliance are using this approach to advocate for better working conditions not just in their sectors, but for all workers.

The Ontario Nonprofit Network (ONN) is building a decent work movement in Ontario's nonprofit sector to strengthen one of its most critical resources – its labour force – and champion fair working conditions and social policies. The sector's labour force is key in visioning, leading, and delivering critical programs and services; achieving objectives; and engaging in public policy advocacy for the most vulnerable people in communities (Edwardh & Clutterbuck, 2015; Hall et al., 2003). The decent work movement in the sector is driven by the belief that when employees are offered decent work, they excel – and so do the organizations in which they work. As a result, nonprofits can better meet their missions and contribute to creating thriving communities.

As the nonprofit sector is women-majority (an estimated 80% of the sector in Canada consists of women workers), ONN's decent work movement means decent work for women as well.[1] This entails looking intentionally at which supports women workers in particular need to thrive in their workplaces. In doing so, sector stakeholders can ensure that employment experiences of different groups of women and appropriate solutions are incorporated into broader labour-force strategy conversations. The concept of decent work for women can be a catalyst for women's economic empowerment.

Using the ILO's decent work approach as a guiding framework, the ONN has identified seven elements of decent work that are of particular relevance for the nonprofit sector:

- Employment opportunities: Access to quality jobs, recruitment and retention of workers with diverse backgrounds and skill sets, and recognizing the impact of being a feminized sector on the type of employment opportunities available.
- Fair income: Adequate earnings, social protections, predictable income that ensures income security, equal pay, equal pay for work of equal value, and pay transparency.
- Health and retirement benefits: Health benefits including drugs and vision, dental, life insurance, retirement benefits (a pension or contribution to an RRSP), and top-ups to maternity and parental-leave benefits.[2]
- Stable employment: Employment protections and specific policies and mechanisms that are put in place to reduce high turnover and seasonal or precarious and unpredictable work.
- Opportunities for development and advancement: Access to both formal opportunities

and a culture of growth in an organization to develop and advance.

- Equality rights at work: Employees are able to express their concerns, participate equally, feel included and safe in the workplace, and have access to safe reporting mechanisms for discrimination and harassment.
- Culture and leadership: Regulations, standards, and leadership norms that govern workplaces, management styles, and work cultures; gender parity and diversity in sector leadership; and challenging gendered roles in organizations.

Over the years, the decent work lens on Ontario's nonprofit labour force has resonated with diverse stakeholders, including boards of directors, senior leaders, frontline workers, communities, and funders.

Spotlight: The Better Way Alliance

The Better Way Alliance is a national campaign composed of employers (for-profit and nonprofit) who believe that investing in their employees is not only an investment in the long-term success of their companies, but also an investment in their communities and the broader Canadian economy. As they state, "It just makes good business sense."

The alliance was successful in drawing attention to the importance of decent work for businesses by participating in Government of Ontario consultations for Fair Workplaces, Better Jobs Act, 2017 (Bill 148), Making Ontario Open for Business Act, 2018 (Bill 47), and Pay Transparency Act, 2018 regulations.

A Gendered Workforce

An estimated two million paid employees work in the Canadian nonprofit sector (Hall et al, 2004).[3] Interestingly, nonprofits (excluding hospitals and post-secondary institutions) with large budgets account for only a small percentage of sector organizations but employ the largest share of paid staff. Organizations with the smallest budgets account for the largest percentage of sector organizations yet employ the fewest employees (Hall et al., 2004). This characteristic of the sector signals that a "one size fits all" labour force strategy cannot be implemented sector-wide.

The sector's workforce is also women-majority. According to the 2008 results of the former Canadian HR Council for the Nonprofit Sector's study of nonprofit sector employees, women make up 75% of the nonprofit sector labour force in Canada (HR Council, 2008). Charity Village's *Canadian Nonprofit Sector Salary and Benefits Studies* from 2011 to 2019 also report that the sector consists primarily of women workers at all position levels and that there have been no significant changes to that number since the first survey was issued in 2011.

There are limited data on Canada's nonprofit labour force and no data on diversity within the labour force. It is unclear how many workers in the nonprofit sector across Canada are immigrant, Indigenous and racialized, from the LGBTQ community, or identify having visible or invisible disabilities. It is also unclear which job titles they hold and which subsectors they work in. This is important because a gendered and racialized division of labour exists in the sector.

Although more than a decade old, a snapshot of Toronto data highlights that racialized women workers make up a large portion of Toronto's nonprofit labour force. Using Statistics Canada's 2006 industry and occupation data in *Not Working for Profit,* Zizys (2011) found that in Toronto (census metropolitan area) almost 42% of women workers in the sector were from racialized groups (referred to as visible minorities in the report), compared to about 41% of women workers from racialized groups in all other industries. There was a higher concentration of Black women in the nonprofit sector (11.8%) compared to all other industries, followed by Chinese women (5.8%), and Filipino women (5.4%) (Zizys, 2011). About 48% of women workers in the nonprofit sector were from immigrant populations, a proportion that was slightly less than across all other industries (Zizys, 2011). Having more robust and up-to-date data on diversity within the nonprofit sector labour force would be useful in creating labour-force strategies that meet the needs of various workers and fill gaps.

Barriers to Decent Work

The nonprofit sector differs from other sectors, with its own characteristics, challenges, and opportunities that significantly impact employment in the sector. For example, a key characteristic of the nonprofit sector is its ongoing dependency on time-limited and restricted funding in a climate of resource constraints.[4] The only national nonprofit sector research (the National Survey of Nonprofit and Voluntary Organizations project, conducted in 2003) noted that financial capacity issues were among the greatest challenges for nonprofits and charities in meeting their missions. It was about having not just more money, but "better money" that was stable, longer term, helped fund core operations, and gave organizations autonomy to direct their operations and programs (Hall et al., 2004).

Resource constraints can also be exacerbated by legislative and regulatory structures, impacting long-term planning and flexibility of organizations (Lalande & Ymeren, 2015). For example, the Pay Equity Act in Ontario was particularly difficult for nonprofit organizations to implement when it came into effect because it requires critical human resource (HR) support for administration and resources to cover any pay-equity liabilities. More recently, while many organizations in Ontario's nonprofit sector had in principle welcomed the Fair Workplaces, Better Jobs Act, 2017, which increased the minimum wage and provided other protections for employees, few nonprofit subsectors saw an increase in their funding to support increased costs.

Another challenge is the complex narrative of the sector. The sector is understood as "do gooder," "caring," "helping," and "altruistic" for a number of reasons. It has roots in religious organizations and pervasive references to the charity model. Moreover it is considered carework[5] and thus women's work, particularly that of immigrant, racialized, and low-income women. As a result, how the sector is understood and valued is directly linked to the perception of its importance and the impact of its work. For this reason, there is a dominant narrative that those working in the sector should not be paid as well as people working in other industries and sectors and that all resources should be focused on programs and clients.

Given the sector's competing priorities in a changing and resource-scarce environment, many nonprofits are left with an impossible choice of investing in their workforce or investing in the communities they serve. It is this context that can often make it difficult to implement decent work practices. Inevitably, employment conditions are the most affected as HR is usually the first part of a nonprofit organization's budget to be cut (McIsaac et al., 2012). This has a variety of negative impacts, including increased precarious part-time and contract employment, non-competitive wages, increased shift work, and fewer benefits and pensions. These in turn contribute to job dissatisfaction and result in high staff turnover in the sector (McIsaac et al., 2012). Compensation levels for nonprofit sector work is much lower than national averages in Canada. For example, new national data reveals that in 2017 the average compensation in nonprofits across Canada was $42,500, while the average compensation in the entire labour force was approximately $59,800 (Statistics Canada, 2019).

To better understand the particular barriers women workers face in Ontario's nonprofit sector, ONN conducted a comprehensive literature review, a series of learning circles (focus groups), and a survey through a gender-based intersectional lens (GBA+). Six key findings emerged from this work.[6]

First, the sector is women-majority but not women-led (ONN, 2018). Based on their employment share, women are disproportionately concentrated in non-leadership positions and are more likely to lead smaller-sized and low-budget organizations (ONN, 2018). Women made up 71% of senior leadership roles and 85% of support staff roles (Charity Village, 2019). Unequal job opportunities and a glass ceiling exist particularly for immigrant and racialized women and women with disabilities, resulting in a gendered and racialized hierarchy in the labour force (ONN, 2018).

Second, women have lower average compensation than men (ONN, 2018). Three components impact women's compensation in the sector (ONN, 2018). First is a phenomenon known as the "care penalty," where wages in the sector are lower compared to other sectors, despite the fact the workforce is highly educated and experienced. Within the sector, women earn less than men, especially in senior leadership positions. The gender wage gap between men and women is the greatest at the senior leadership level, at 17%, where men reported an average salary of $100,733 and women $85,760 (Charity Village, 2019). Last, limited access to pension plans, health benefits, and maternity-leave top-ups in particular lower women's compensation over the course of their careers.

Next, women experience sexism at all levels (ONN, 2018). Busting the myth that sexism doesn't exist in a women-majority sector, women experience sexism on a day-to-day basis – in the types of roles they occupy, in distribution of work, and in the value of that work (ONN, 2018). Board members were cited as treating their male and female executive directors unequally. Women also overwhelmingly experience bullying and some sexual harassment (ONN, 2018). Bullying was experienced from other women in similar positions and those in power, while sexual harassment was experienced in interactions with external parties, such as clients.

Gender plays a significant role in the nonprofit sector (ONN, 2018). At the macro level, nonprofit work is considered carework, and thus women's work, decreasing its value, while power dynamics between organizations and their boards, donors, or funders can be rooted in traditional notions of masculinity and femininity (ONN, 2018). At the micro level in the sector, precarious employment is increasing, and the sector has difficulty recruiting and retaining staff, dealing with lower wages and limited access to benefits and professional development (ONN, 2018).

Racism and ageism are other common forms of discrimination (ONN, 2018). People's identities are complex, and discrimination is experienced in multiple ways. Some women experience discrimination primarily based on gender; some at the intersection of gender and another aspect of their identity, such as ability or age; and others primarily because of one part of their identity that is not gender, such as race (ONN, 2018).

Decent Work Is Possible: How to Start Implementing

While implementing decent work may seem like a daunting task, organizations are successfully incorporating it into their workplaces. Across Canada, nonprofits are becoming champions of decent work. The goal of the decent work movement is to start somewhere and to build on it over time at the organizational, network, and systems levels. It is in a coordinated and holistic way that decent work practices can become the norm in the nonprofit sector.

Organizational Level

Individual organizations have a crucial role to play in promoting decent work in their organizations and communities. While some decent work practices may require financial resources, others will simply require time (Lalande & Ymeren, 2015).

A starting point for organizations is to have a dialogue about decent work with staff, management, and boards of directors. Asking critical questions, such as what does decent work look like in the workplace, can open the door for developing and implementing decent work policies and practices that are rooted in the needs of the organization.

There are a variety of resources to support nonprofits in doing this work. As an early adopter of the decent work framework, the Toronto Neighbourhood Centres (TNC) developed and piloted two free tools: the Decent Work Charter and the Decent Work Checklist. The charter serves as a vision document for organizations to connect their values and goals to decent work. Often, boards show their commitment to decent work by signing the charter. The checklist is an organizational assessment tool of workplace practices. Based on the seven elements of decent work discussed above, it helps organizations identify areas where they are practising decent work, and the areas they need to build up.

Once strengths and areas for improvement are identified, it is important for organizations to develop a plan of action. This might include a pension plan, exploring decent work tools (121 ideas), sharing experiences across the sector in a communications campaign (for example, ONN's Voices Carry campaign), or reviewing compensation structures through a gender-based intersectional lens to ensure everyone is making a fair wage. It could also mean updating maternity and parental leave policies to reflect changing family compositions and unpaid carework.

Sector Spotlight: St. Stephen's Community House

St. Stephen's Community House (SSCH), established in 1962, is a multi-service agency in Toronto that has contributed to the development and piloting of the Decent Work Charter and the Decent Work Checklist.

SSCH is a proud supporter and champion of decent work. Its board has signed on to the Decent Work Charter, and the organization has incorporated decent work into its strategic plan. In addition, SSCH has committed to practising decent work internally and externally, by educating clients and program participants about the importance of decent work and by challenging employer partners to provide decent wages and stable employment as a requirement to working with their employment services team.

Network Level

Connecting and convening to share decent work practices at the network level (across the sector or across individual subsectors, such as arts and culture, settlement services, sports and recreation) is another way in which to make decent work a reality for more workers. Often individual nonprofit organizations don't have the capacity to tackle HR issues and implement solutions and can feel siloed. Connecting and convening at the subsector and sector level is a way for staff and leaders to share and learn from each other. There is a need for networks to support and help one another tackle issues that they cannot take on alone, as well as find new ways to support and develop the well-being of nonprofit workers in the sector (Lalande & Ymeren, 2015). At the subsector level, people can connect and convene through provincial associations and coalition networks, while at the sector level through nonprofit networks, leadership networks, and affinity groups.

Sector Spotlight: Association of Early Childhood Educators Ontario

The Association of Early Childhood Educators Ontario (AECEO) is a provincial association for early childhood educators (ECEs), and its primary purpose is to advocate for respect, recognition, and appropriate wages and working conditions for all ECEs. AECEO recently adopted the Decent Work Charter as part of its Professional Pay and Decent Work campaign. In the lead-up to the June 2018 Ontario provincial election, AECEO used decent work language and the framework in its advocacy work and in discussions with government.

Systems Level

Organizational- and network-level efforts are further strengthened by systems-wide change. While organizations and networks can work on mitigating decent work barriers, changes at the systems level in public policy can help create an overall enabling environment for decent work. There are a range of initiatives across the sector that require cooperation, coordination, support, and advocacy on the part of the sector and government to influence policy change (Lalande & Ymeren, 2015).

For instance, engaging both governmental and non-governmental funders on how they can use the decent work lens in their approach to funding can allow organizations to implement decent work practices that require more resources. Organizations can then ask for higher operating costs or include various HR expenses in their budgets such as pension contributions.

The decent work lens is also important for social and labour policies. Changes here can improve the broader labour market and social safety net, raising the floor of working conditions for workers within the sector and beyond. For example, higher minimum wages and strong employment protections, pay transparency, pay equity, and adequate maternity and parental-leave benefits create a better environment for everyone, and decent work can be more easily offered.

We All Benefit from Decent Work

Global and local movements are amplifying the message of decent work – of fair, stable, and productive workplaces for all. They are recognizing that the decent work lens is not only a solution for broader social issues but that it can also strengthen the nonprofit sector's gendered labour force.

While multiple barriers to offering decent work in nonprofits exist, the context in which the sector operates is very different from that of the public and private sectors and is uniquely tied to employment. The nonprofit sector must offer decent work. If it does not, the sector will not be able to meet increased service demands, recruit and retain skilled employees, or adapt to the future of work and a new generation of workers.

By championing decent work at the organizational, network, and systems level, the sector can attract and retain high-calibre professional staff with the skills and knowledge to deliver public benefit for years to come, building a stronger and more resilient sector. A healthier, happier, and better-supported labour force creates stronger organizations and, consequently, thriving communities.

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Endnotes

[1] The term "women-majority" is used rather than "women-dominated" because, although the sector consists mostly of women workers, women are underrepresented in senior leadership positions. ONN uses an inclusive definition of women that recognizes and includes trans women, queer women, and nonbinary people.

[2] Employers have the option of "topping up" their workers' Employment Insurance, maternity, and parental-leave benefits to reduce the difference between the benefits and the workers' regular earnings.

[3] This number includes those employed in hospitals and post-secondary institutions, which was only one-third of the two million paid employees.

[4] "Restricted funding" means money that has deliverables, outcomes, or directions attached, while "unrestricted" means money that the organization can use as it chooses for mission activities.

[5] An act of caring for others that is unpaid (parents raising their children, family caring for relatives with disabilities, elder care) or paid (childcare providers, teachers, nurses, home-care providers). See ONN's Key Terms document.

[6] See ONN's Women's Voices report for complete findings.

Biography

Pamela Uppal and Monina Febria, Ontario Nonprofit Network

Pamela Uppal is a policy advisor at the Ontario Nonprofit Network, leading its future-of-work file with a nonprofit and gender lens.

Monina Febria holds a master of arts in globalization and international development from the University of Ottawa and an honours bachelor of arts in international studies from the University of Toronto. Monina has more than 15 years' experience within the social-justice, immigrant, and refugee-inclusion space at the local and international level, including at World Education Services, the Ontario Council of Agencies Serving Immigrants, the Ontario Nonprofit Network, AMNLAE Casa de La Mujer, and the Toronto Region Immigrant Employment Council. Monina was project lead on the decent work portfolio at ONN and facilitated the establishment of the sector-wide pension plan for nonprofits in Ontario.

The People Environment: Leaders, Employees, and Volunteers

Chapter 19

Working Conditions in the Nonprofit Sector and Paths to Improvement

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This is a good time to look critically at working conditions in the nonprofit sector, and specifically at the absence of pension plans in most workplaces. There is a feeling of urgency among stakeholders on this matter, as the baby boomers retire without access to pensions and as it becomes difficult to attract a new generation willing to tolerate low pay in exchange for the "passion bonus." The sector is nearing a tipping point – and perhaps a crisis of leadership succession. Many analysts argue that the situation requires immediate attention (Taylor, 2017). Yet some progress has been made recently, with improved working conditions and the creation of pension plan initiatives for the sector in Quebec and Ontario. Are these experiments successful and sustainable, and how do we build on them across Canada?

Our aims in this chapter are to a) identify problems related to working conditions in the Canadian nonprofit sector and b) examine one of the key paths to improving them. First, we offer a review of the recent Canadian literature on labour-force trends and working conditions in the sector. Second, we examine concrete solutions that have been considered, tested, or prepared regarding pension plans in New Brunswick, Quebec, and Ontario. We conclude by discussing some of the thorny issues for pension plan development in the nonprofit sector – including the relationship with unionization in a sector with highly variable degrees of unionization – and consider how to better provide nonprofit employees with more secure retirements.

Labour Force Trends and Working Conditions in the Sector: A Literature Review

As observed by the Ontario Nonprofit Network (ONN, 2017), there is little broad-based empirical knowledge regarding working conditions in Canada's nonprofit sector.[1] Although the Human Resources Council established by the federal government in 2004 had begun to collect valuable labour-force data, its demise less than a decade later was a serious setback. There are a few large survey-based studies of the kind produced by the Centre de formation populaire (CFP) & Relais-femmes (2005) in Quebec, and more recently by CFP & RIOCM (Regroupement intersectoriel des organismes communautaires de Montréal) (2018).[2] These studies provide valuable but partial information and are limited in geographic scope. Better and more comprehensive data on the nonprofit labour force in Canada are urgently needed. This need was reinforced by the June 2019 report of the Senate Special Committee on the Charitable Sector that called for the HR Council, or a similar body, to be reinstated (Senate of Canada, 2019: 37).

To supplement our knowledge of labour conditions and efforts to establish pension plans, we conducted five interviews with researchers and key actors from the Canadian nonprofit sector (four from Quebec and one from New Brunswick) who have been deeply involved in the struggle for better working conditions and pension plans for nonprofit employees.

System Characteristics: How We Got Here

The nonprofit sector is overwhelmingly a women's sector (CFP & Relais-femmes, 2005; Fanelli et al., 2017; CFP & RIOCM, 2018; ONN, 2018; see the chapter by Uppal and Febria). For instance, a description of the sector in Toronto reports that women represent more than 84% of its labour force (Toronto Workforce Innovation Group, 2011: 5). The same study also makes it clear that these female employees tend to be poorly compensated, despite being highly educated. The work they do, to a large extent, is unrecognized, invisible "female-type" care work. Early childhood educators in Ontario are particularly underpaid.

Much is now expected of the sector, and the pressure is mounting. How did we get to poor working conditions in the nonprofit sector, and why do we allow them to persist? In the last three decades, the nonprofit sector has been asked to provide an increasingly large share of services to the population, in particular human services to disadvantaged populations. Beginning in the late 1980s, the introduction of neoliberalism and the "new public management" (NPM) model (Aucoin, 1990; Evans & Shields, 1998; Baines et al., 2014) penetrated and influenced the running of nonprofit organizations, especially those whose revenues originate largely from a mix of public funds and earned incomes. The NPM approach aimed to make the public service more "businesslike" and to improve its efficiency by using private sector management models. In addition, core funding for the general activities supporting organizations' missions has declined significantly while project-based or contract funding is on the rise (Baines et al., 2014; ONN & Mowat Centre, 2015; Edwardh & Clutterbuck, 2015; Fanelli et al., 2017; Scott, 2003).

Contract-based funding creates structural deficits in an organization's operation, since overhead costs are not properly covered. A lot of time is invested in searching for new project funding, while no real investment is made in human resources development and long-term strategy for the organization. Overhead ratios must be kept very low, and funding for advocacy activities (even when they are tolerated) is difficult to obtain. The contract-based service model of funding also comes with elaborate and rigid sets of performance measurements that are increasingly focused on outcomes defined by the funding party. In the name of accountability, an audit culture takes over and requires from the organization the development and implementation of well-designed monitoring and tracking systems to demonstrate value for money – but to do so while maintaining low administrative costs. These systems are time-consuming to operate and, paradoxically, can result in providing less service per dollar invested. Because of their rigidity, they tend to remove some spending flexibility, leaving the organization less effective at meeting goals, as observed by Theriault and Haan (2012) in immigrant settlement agencies in New Brunswick. Limits placed on the type of items organizations can spend contract money on make it more difficult to bring clients to where the services are delivered.

Under service-delivery contracts with governments, working relations and conditions are often regulated in various ways, from setting hourly wages to specifying targets for the number of clients who must be served (Fanelli et al., 2017). To meet the overall terms and conditions of the contracts, nonprofits need to find flexibility in their own workforces and, as a result, frequently employ staff on temporary contracts or on a part-time basis, use the services of temporary worker agencies, or increasingly rely on volunteers. In effect, non-standard employment and precarious work has become the "new normal" in the nonprofit workforce (Edwarh & Clutterbuck, 2015: 4). The hope of finding "decent work" in the sector is increasingly elusive, and Taylor (2017: 2) reports that 63% of young workers would not consider a career in the sector for fear of not being able to earn a living. The climate created by this mode of operation is generating stress. This lean approach has negative effects on the quality of the services offered by the sector and on the attainment of its institutional goals (ONN & Mowat Centre, 2015). The perception of the sector by outsiders is also affected, and this can be problematic when nonprofit organizations try to recruit and retain a new generation of workers.

Compensation and Benefit Levels

A clear picture of wages in the nonprofit sector is hard to obtain, but few doubt that they are generally below the levels found in the public sector in general or the health services sector in particular (CFP & Relais-femmes, 2005: 41; Baines et al., 2014: 81). For instance, Ballingall (2015: 4) reported that Ontario's childcare workers had an average hourly wage of $17.47, or about $36,000 per year. By comparison, the average salary for elementary school teachers in Ontario is $61,375 as of the end of 2018, but the range typically falls between $50,276 and $72,796 (www.salary.com). The poor wages are supplemented by insufficient benefit packages for things like extended medical coverage (e.g. vision and pharmacare) and paid sick or personal leave. Paid vacation days are often for less than three weeks (Edwardh & Clutterbuck, 2015) and paid sick days are rare. Even these poor benefits are commonly restricted to permanent, full-time employees working 30 hours per week, who represent a minority of employees (CFP & Relais-femmes, 2005: 53).

The relatively flat organizational structure of many nonprofits also means that opportunities for training, advancement, and promotion are perceived to be few and far between (ONN & Mowat

Centre, 2015). Pension plans are particularly lacking and accessible to only a small proportion of workers in the sector (Fanelli et al., 2017). As we argue in the second part of this chapter, pensions are one of the priority areas where interventions can truly make a difference for workers in the nonprofit sector.

Health, Safety, and Workplace Violence

The health and safety status of the nonprofit worker is a neglected research area (Kosny & MacEachen, 2010), perhaps because so much of the work done by these workers is concerned directly or indirectly with the health and safety of the populations they serve rather than their own. First, as pointed out by Lewchuk et al. (2008), working without sufficient commitments from your employer has potential health consequences. In other words, employment relationships where future employment is uncertain are associated with poorer health indicators. Second, even when work is plentiful and relatively stable, health and safety issues are clearly present, yet these hazards are frequently ignored. This can be related in some degree to the fact that the sector is a women's sector where "empathy work" or "emotional labour" (Hochschild, 1983) is produced. As service providers care for the welfare of service users, their own health and safety becomes an invisible issue, both for academic research and protective legislations (Kosny & MacEachen, 2010).

Unfortunately, incidents can go beyond harmful repeated verbal abuse. In some nonprofit human-services organizations, Baines and Cunningham (2011: 765) report that violence against workers occurs and is to some degree tolerated and excused by management, in part out of concern for the difficult life situations of the perpetrators. In some of these organizations, employees are working at the limit of their endurance as the "ideology of customer sovereignty leaves the door open to abuse and violence" (Baines & Cunningham, 2011: 765). Threats are also occasionally made against female employees' children and families.

As these situations accumulate, threats or even violence can start to be viewed as a normal part of the daily work. Employees might use bravado as a coping mechanism initially, but some might become emotionally depleted and, as a final coping strategy, fail to come to work, ultimately jeopardizing the mission of the organization itself.

But the work culture of the nonprofit sector can offer a buffer against the psychological distress and symptoms of depression experienced by some employees involved in this emotionally demanding work. In particular, maintaining a good level of freedom to decide (work autonomy) and providing social support at work are effective practices (Vézina & Saint-Arnaud, 2011; Binhas, 2016).

Cultural Unitarism, Participation, Unionization, and Work Rights

The strengths of the sector can also be some of its weaknesses. Small and medium-sized nonprofit organizations are often self-described as "one big happy family" or "team" (Cunningham et al., 2017). That *unitarism* is characteristic of many organizations that use this value system to motivate staff, and it propels the work of the unit toward the harmonious achievement of common goals. However, unitarism can present a barrier when it comes to an employee who wants to raise an issue regarding working conditions, as they might be hesitant to break the big-happy-family consensus to put difficult matters on the table.

While workplace participation has traditionally been understood as a characteristic and a competitive advantage of the nonprofit sector, or at least one of its aspirational goals, Cunningham et al. (2017) argue that the legacy of neoliberal ideology and a recent period of austerity has moved the sector backward in this regard. The focus on efficiency, low overhead ratios, top-down management models, and primacy of the service "user" (Heffernan, 2006) has obscured the health and safety concerns of service providers.

As work intensifies, with the high-volume targets, the work environment becomes stressful. The erosion of workplace participation, low union density (ONN & Mowat Centre, 2015), and the normative unitarist value structure of the sector reduce the avenues by which grievances can be resolved. In fact, a large proportion of nonprofit organizations have no formal structure for workplace negotiations (CFP & Relais-femmes, 2005: 25). As a result, organizations can face problems with morale and, in the end, with the quality of services provided.

The low union presence in the nonprofit sector is a key factor contributing to poor working conditions (CFP & Relais-femmes, 2005). Larger nonprofits are more likely than smaller ones to be unionized and to offer more attractive benefit packages. But the logic of unions originated in the industrial world and can be quite foreign to nonprofit agencies offering human services. Workers themselves often see the presence of a collective agreement, with its rigidities, as antithetical to the flexibility that characterizes a nonprofit's functioning.

Not a Pretty Picture

Both research that compares the nonprofit with the public sector and our own interviews for this chapter indicate the former is lacking in compensation and in many employment benefits. Several serious issues are in need of attention. But, in our view, the social sciences literature – and its focus on problems – perhaps overplays its hand when it describes working conditions in the Canadian nonprofit sector as almost hellish. The next section offers a more optimistic view by looking briefly at several social initiatives aimed at addressing some of the major challenges experienced in the sector.

Some Innovative Avenues to Improve Working Conditions in the Nonprofit Sector

The nonprofit sector has not completely ignored these issues, and some promising avenues are being explored by those concerned with improving working conditions and benefits. This discussion begins with a look at a large-scale unionization of nonprofit sector workers in Quebec, in the area of early childhood centres, which has created a structural context for improving working conditions among childcare workers in the province. Next, we turn to the successful creation of pension plans for workers across the sector, first in Quebec in 2008, followed by Ontario a decade later – but with a missed opportunity in New Brunswick in the early 2000s.

Early Childhood Centres in Quebec: An Inspiring Example of Unionization

The network of early childhood centres, or *centres de la petite enfance* (CPE) in French, developed from 1997 to 2018, is rooted in the evolution of nonprofit daycare services in Quebec over three decades, beginning in the late 1960s (see Aubry, 2001). The development of the daycare centres in the nonprofit sector was historically supported by the women's and labour movements, which encouraged the unionization of part of the daycare services even before the arrival of CPEs (Bellemare & Briand, 2012). Quebec's "family policy," institutionalized in 1997, includes several measures that have increased fertility rates, promoted wider use of affordable quality daycare, and allowed more women with young children to participate in paid work. The CPE network plays a central role in this policy system. It emerged out of the Sommet sur l'économie et l'emploi, a socioeconomic summit that took place in the fall of 1996 following a social and political mobilization that started in 1994 and intensified around the October 1995 referendum. This was an effervescent period for politics and civil society under the Jacques Parizeau and Lucien Bouchard Parti Québécois (PQ) governments (Vaillancourt & Aubry, 2017).

The nonprofit component – often called the "social and solidarity economy" (SSE) – has long constituted a large part of the delivery system of childcare services in Quebec. It was supposed to be the main and structuring component according to the 1997 design. Of course, it was *de facto* the main component of a mixed system of welfare during the years of the PQ government (1997–2003). But from 2003 to 2018, under the Liberal (PLQ in French) governments of Jean Charest and Philippe Couillard, the scale between the various for-profit and nonprofit components of the childcare system tilted in favour of the for-profits (Lanctôt, 2018; Bouchard, 2018; Nadeau, 2018; David, 2018; Dutrisac, 2018). In total, 303,341 children under six years old were in childcare in September 2018.[3] Of that total, 95,815 spaces (about 32%) belonged to the nonprofit sector and were managed by the CPE network; 91,604 (about 30%) were in subsidized in-home settings (a hybrid sector between the domestic/household economy and SSE); 47,129 (15%) were in private subsidized daycares (for-profit sector); and 68,793 (23%) were in private daycares without subsidies but with tax credits (for-profit sector) (Myles, 2017; Bouchard, 2018; Nadeau, 2018; Ministère de la famille du Québec, 2018).

The impressive evolution of the childcare system in Quebec, and of the number and various categories of spaces available over the last 20 years, has been accompanied by an equally impressive evolution in the number of jobs, and the number of unionized jobs in particular. In the SSE or nonprofit sector, there are 19,000 educators (childcare workers). Of these, a total of 10,900 (more than 57%) are unionized, including 8,000 with the CSN (Confédération des syndicats nationaux), 500 with the FTQ (Fédération des traivailleurs et travailleuses du Québec), and 2,400 with the CSQ (Centrale des syndicats du Québec) (Gagné, 2018). It is well documented that unionization and union action in the field of childcare, and more specifically in the CPE, has had the effect of significantly improving the working conditions of women and has led to gains in group insurance and supplementary pension plans (Bellemare & Briand, 2012; FSSS-CSN, 2013; interviews 1 & 4).

The factors explaining the success of unionization in the nonprofit childcare sector in Quebec are threefold. First, there is the issue of economy of scale previously mentioned. That means that a supportive public policy helped create larger organizations that are more likely to become unionized. Second, in the case of nonprofit childcare services, two important social movements in Quebec strongly supported their development from the start: the women's and the union movement. There was no conflict between them; instead a common view was at play. Third, the new nonprofit-sector jobs created for daycare services were not perceived by the union movement to be replacing jobs in the public sector. Rather, new childcare jobs were seen as an addition instead of a substitution. This is an important point, because other types of new nonprofit jobs, such as those in home support services, were perceived by part of the union movement and their allies as a substitution for public sector employment, and that affected the interest of unions in representing these nonprofit sector workers (Jetté & Vaillancourt, 2011).

Pension Plans: A Missed Opportunity in New Brunswick

The lack of access to some form of retirement income security through participation in a workplace pension plan is a common problem throughout the country. This is due in part to the small size of most nonprofits, as they are not large enough to justify the creation of an employer's pension plan on their own. The same is true (but to a lesser degree) regarding access to other benefits, such as supplementary medical benefits packages offering co-payment schemes for vision care or prescription drugs, but we will focus mainly here on the retirement income issue.

More than one province has considered establishing a sector-run platform to deliver supplementary health insurance and pension benefits to nonprofit workers. This was the case in New Brunswick, when the 2007 Bradshaw Report recommended just such a measure, in the form of a sector-run organization to administrate benefits and pension plans for the sector, under the Liberal government of Shawn Graham. In the 2006 election that brought Graham to power, the Liberals' electoral platform had shown some appreciation of the role of the nonprofit sector by identifying it as the "third pillar" (business and government are the other pillars) in building a vibrant and sustainable New Brunswick. After the election, Graham created the Premier's Task Force on the Community Non-Profit Sector, which undertook a process of consultation during 2006 and published its *Blueprint for Action* (Bradshaw Report, 2007). This in turn led to the development of a Secretariat for Community Non-Profit Organizations. Unfortunately, the New Brunswick government moved slowly on the Bradshaw recommendations, and with the election of the Progressive Conservative government of David Alward in September 2010, all its initiatives were quickly shelved, regardless of their merit.

While the report (Bradshaw et al., 2007) expressed concern for the retirement incomes of nonprofit workers, it did not offer much detail on exactly how New Brunswick would provide access to pension plans for nonprofit staff. One option considered was to do this simply through employer contributions to individual employee RRSPs, as is the practice in some businesses.[4] One of our key informants from New Brunswick (interview 5), who had participated in the elaboration of the Bradshaw Report, recalled that many nonprofits in the province were so concerned about their current funding and day-to-day operations that the possibility of setting up a real pension plan seemed a vague and distant priority they had difficulty imagining. At the same time, many in the sector were concerned about losing some of their best and most experienced workers to the public sector because of the lack of benefits and pension schemes in their organizations.

The New Brunswick case probably illustrates that little can be done toward setting up a pension plan if few in the sector feel that it is a viable option. There is a need for the sector to push for such measures; otherwise, who can we expect to be the champions of such a policy innovation?

The RRFS-GCF Plan in Quebec

Quebec was the first province in Canada to successfully adopt a pension plan for the nonprofit sector – the Community and Women's Groups Member Funded Pension Plan, a.k.a. the RRFS-GCF plan, demonstrating that it could be done. In this section, we analyze the emergence and structure of the plan using publicly available information along with material obtained through four interviews with key informants who were knowledgeable and connected with the development or current operation of the RRFS-GCF plan. Let us start by summarizing the context for the emergence of the plan.

How the Plan Came About

- In the 2001 Quebec government policy on the recognition and support of community action, there was a provision that related to nonprofit groups improving their working conditions: "By improving working conditions in the community sector, the government hopes to contribute to creating sustainable jobs." The government also reiterated its desire "to assist the community sector in steps aimed at determining the interest of organizations in establishing group insurance plans or basic retirement plans, should the sector deem it appropriate" (Quebec Government, 2001: 35; quoted in Lizée, 2015).
- In 2002, the Centre de formation populaire (CFP) and Relais-femmes received a grant from the Quebec government to survey "a wide spectrum of community groups on the present situation and their interests concerning group insurance and pensions" and created a working group of 15 people from various networks within the community sector to administer it (Lizée, 2015; Lizée & Gervais, 2017).[5]
- In 2003, the working group conducted a survey of the more than 4,900 community organizations listed at the time by SACA, obtaining about 1,350 responses (a response rate of 28%). Analysis of the results generated several concrete proposals of pension plans and group insurance "adapted to the realities of the community groups" (CFP & Relais-femmes, 2005: 11).
- In October 2005, the report was published with a title that reflected a certain pessimism: *So That Working in the Community No Longer Rhymes with Misery*. Some highlights of the survey: 80% of jobs in the community are held by women (p. 35); 3% of organizations are unionized (p. 23); 35.5% of organizations offer some form of group insurance plan to their employees (pp. 45–55); 9.7% of organizations reported having a pension plan for their employees (p. 59), but only 1% had a plan that could be described as a true "supplemental pension plan" (p. 65).
- The survey revealed that 67% of the groups surveyed considered that the creation of a pension scheme in the sector was either an "unrealistic" project or a project that had to be "postponed" (2005: 63). Nevertheless, the report concluded that the obstacles to the development of group insurance schemes and supplementary pension schemes could be overcome and that "the community movement must mobilize on this issue" (2005: 65–67). This seemingly optimistic conclusion was consistent with a belief

expressed by the report's authors at the outset: "Is it possible to imagine that one day the inaccessible will be reachable, we are convinced of it" (p. 11).

- From the autumn of 2005 to 2008, the working group continued to explore the various possible scenarios while consulting a number of stakeholders with opinions and expertise on the issues. With time, the situation evolved and the initial pessimism was overcome. The plan was finally launched in October 2008.

Key Features of the Plan

If supplementary health insurance coverage is rare, pension plans for nonprofit employees are nearly non-existent – less than 10% or as low as 1%, depending on the definition (CFP & Relais-femmes, 2005). Nonprofits are more likely to have pension plans when they are unionized, older, have sizeable revenues, and are self-financing rather than dependent on third-party funding. Two important factors that inhibit the creation of pension plans are the precarious and unstable nature of the work (employees often work in an organization for a short period of time) and the complexity for any single organization in tackling the establishment of such a scheme. Yet the stakes are high because in the absence of employer-based pension plans, retirees from the nonprofit sector are at risk of living their "golden years" in poverty.

Looking back, we are surprised, even amazed, by the launch of Quebec's Community and Women's Group Member Funded Pension Plan in 2008, given the degree of skepticism and pessimism regarding this initiative within the community sector when the idea started to be seriously discussed in 2005. However, as noted by two of our interviewees, women's groups were the most enthusiastic and motivated by the idea because they perceived that it would finally answer some of their needs.

The RRFS-GCF is a single multi-employer pension plan open to all nonprofit, community, social economy, and women's groups across the province who voluntarily choose to join. The plan provides members with a decent lifelong retirement income, and its investment policies are in line with the sector values regarding social, environmental, and governance issues. The plan is also flexible, as each participating organization sets its total contribution rate (between 2% and 20% of salaries), and these rates can be raised or lowered at will by each participating group. The contributions are tax deductible for the employees, and the employer contribution is not a taxable benefit. It provides defined benefits and follows a prudent approach with a funding policy aiming at security, sustainability, and intergenerational equity (every $100 paid into the plan is sufficient to finance yearly pension of $10 as of age 65, and to index it to the cost of living each year for all active and retired participants[6]). Should a deficit arise, part of the employee contribution of ensuing year(s) must be used to eliminate it. An indexing reserve is in place to reduce this risk as much as possible. Normal retirement age is 65, with a possibility of retiring as early as 55 (with a reduction) or to postpone retirement as late as age 71 (with an upward adjustment). Various tools can be used by members to increase their guaranteed pensions, such as past service buyback, direct transfer from another pension plan, or voluntary contributions (Lizée, 2015).

The plan respects the autonomy of member groups. Each employer group decides whether to participate (30% of salaried workers can block participation), and each group chooses the member contribution rates. The risk is borne collectively by plan members, and democratic procedures are established for joining the plan. There is an annual general meeting (AGM) every fall where each member is invited to participate. A board of governance (or pension committee) of 13 people (with a requirement for a minimum number of women representatives) is elected at the AGM to act as the plan's fiduciary and administrator. The board administers the plan and selects the actuarial, auditing, and managerial experts who will manage the money invested, which is pooled with investments from other plans. Each participant worker can access a personal statement annually through a personal page on the website of the plan.

As of the end of 2018, there were about 7,000 participating members spread over 706 groups. There are approximately 120 retirees receiving pension incomes and more than $61 million in invested assets. In 2010, the plan received the Plan Sponsor Award from Benefits Canada in recognition for the various innovations it introduced (Régime de retraite des groupes communautaires et de femmes, 2016 & 2017; Lizée, 2018).

Ontario's March toward the Creation of a Pension Plan for the Sector

In Ontario the process was slower than in Quebec. In 2018, Ontario was finally able to launch a plan, OPTrust Select, following extensive preparatory work by the ONN, which has been summarized in a 2017 technical report entitled *A Roadmap for a Nonprofit Sector Pension Plan*. The ONN's two pensions task forces (working from 2015 to 2017 and in 2017/18) were aware that employee benefits and pension plans are key factors in employee recruitment and retention and that a nonprofit sector pension plan "would make a tremendous difference for workers' wellbeing and the ability of the sector to recruit and retain the talent it needs" (ONN, 2017: 4). It had also benefited from the lessons of the Quebec initiative by consulting with some of its key players.[7]

The ONN aims were to develop a plan that would respect the priorities of *adequacy of retirement benefits* (70% income replacement), *affordability and predictability of contributions* (employers and employees would each contribute 3% to 5% of earnings per year), and *security of the plan* (using the more conservative approach of a multi-employer pension plan with *target benefits*).

The ONN (2017: 43) was concerned that "not many existing pension plans have expressed an interest in taking in the nonprofit sector's workforce." But in the end, the ONN found a willing established partner and opted not to set up a retirement plan from scratch. Instead, after three years of work and with the view that the reforms of the Canada Pension Plan (CPP) system are slow-going and modest in scope, the ONN decided to join the well-regarded public OPTrust plan near the end of 2018. ONN joined under an adjunct formula called the OPTrust Select. OPTrust, like the RRFS-GCF in Quebec, is based on the combination of a guaranteed lifetime annual benefit based on a percentage of total contributions (10% in both cases) plus conditional indexing to the cost of living financed from an indexing reserve funded by part of the contribution. It offers defined benefits and requires a mandatory 3% contribution from both employer and employees (while the regular OPTrust plan for the public sector uses contributions in the range of 10%). Adherents can also buy back past years of services. The hope is that, if the plan is widely adopted across the sector, the goal of making it possible for workers to move between employers while maintaining the same pension will be achieved (Kainer, 2018). One of the limitations of this plan, compared to the RRFS in Quebec, is that in the OPTrust Select, contributions are fixed at 3% each for employers and employees. In the case of the RRFS, contributions levels can be set between 2 and 20% by each employer and employees (with at least half paid by the employer) and changed upward or downward at any time, to take into account changes in the funding situation of the employer (M. Lizée, personal communication, January 7, 2019).

The Common Good Retirement Plan Initiative

The field of nonprofit pensions is fast-moving, and as research for this volume concluded in late 2019, additional developments were still unfolding. In addition to the recent adoption by the ONN of the OPTrust Select in Ontario, a national coalition known as the Common Good Retirement Initiative was gaining momentum for a national portable, collective retirement plan for the sector. This initiative, which operates as a social purpose business, is funded by a coalition of large Canadian philanthropic foundations, led by a steering committee of nonprofit sector leaders, and has secured a long list of committed employers from the sector (Common Good, 2018). While it is national in scope, this initiative offers an option that is far less ambitious and provides less security of payments for the workers compared to the option selected by the ONN. The key weaknesses of this plan are a) only the employee must contribute, b) the benefit levels will tend to be lower, and c) benefits will be at risk from market fluctuations.

Still, this defined contribution plan represents an improvement for nonprofits that currently have only the option of a group RRSP (registered retirement saving plan) or individual TFSAs (tax-free savings accounts). Its advantage is that collective management of the funds should reduce significantly the management fees. Moreover, the Common Good plan offers a two-tier system to take into account the different saving capacities of lower- and higher-income employees. The first tier is a TFSA for low-income employees and the second an RRSP that can be used by higher-income employees once they have reached their maximum contribution in their TFSA. In the TFSA, contributions are not tax deductible, but income is not taxed inside the TFSA or when the funds are withdrawn. Most importantly, withdrawals during retirement have no impact on the amount of guaranteed income supplement (GIS) that the person will receive, a very significant advantage given the low incomes expected from this plan. The RRSP contributions are tax deductible, but the benefits are taxable, which may result in a clawback in the GIS so long as total income (including Old Age Security) is under $25,457 for a single person over age 65 or $37,955 for a couple. Depending on income level, the marginal rate of income reduction due to this clawback and the tax system are somewhere between 50% and 85% (M. Lizée, personal communication, January 7, 2019).

The issue of decent work and compensation, including pensions, was taken very seriously by the Senate Committee on the Charitable Sector, and its June 2019 report recommended that the federal Minister of Finance, working with provincial and territorial counterparts, support the development of pensions for the sector that would be portable across jurisdictions (Senate of Canada, 2019: 36). That is an ambitious goal, and it remains to be seen how the federal government, while respecting the provincial initiatives, especially in Quebec, could facilitate the emergence of what would be a pan-Canadian, portable plan that enables the sector to provide decent retirement benefits.

Conclusion

The Canadian literature on working conditions in the nonprofit sector, emerging mainly from Ontario and Quebec, has identified a number of issues pertaining to working conditions, ranging from health and safety to violence in the workplace, from low wages to limited access to benefits, and limited availability of pension plans. The working conditions are reported in relatively dire terms: the climate is stressful, unstable, unfriendly to advocacy work, overly focused on tracking activities, and influenced by an audit culture. These conditions are reported to have worsened in the last decade as neoliberal government policies have intensified. Indeed, one could glean from the literature the impression that working in the nonprofit sector is a living hell, especially compared to the public sector.

We feel that this view is only partially correct, and we want to emphasize that some paths for improvement of the working conditions in the sector are being developed. One route comes with a massive unionization of part of the sector, as occurred in Quebec with the childcare network that created a large base of properly funded and unionized jobs in the sector. A second route, gaining traction across the sector, is the introduction of sector-wide pension plans. The success in Quebec and now in Ontario demonstrate that with the leadership of the sector itself, and perhaps with other allies from the union and the women's movements, it is possible to establish pension plans that will go a long way in improving the financial security of workers upon their retirement. The failed attempt in New Brunswick reveals that the sector can be its own worst enemy, however, by not believing and pushing enough for pension plan reforms.

It is time for nonprofit leaders and sector researchers to pay serious attention to the precarious working conditions in the sector and explore how improved work conditions can be promoted. Pension plans serve as a good starting point to focus our attention, especially given the aging of the nonprofit workforce. The creation of supplementary pension plans for the sector does not mean that stakeholders need to abandon their advocacy efforts to also enhance the public pensions system in Canada based on the current GIS+OAS+CPP/QPP/ORPP architecture but that more than the minimal system is needed.

The decade to come will be a challenging one for the sector. Nonprofit organizations will compete with other employers to recruit and retain human resources in the context of a large demographic shift that will see the baby boomers leave the active labour force and be replaced by younger workers with little or no institutional memory and different training and expectations about work. In this transition phase, issues of intergenerational justice will be particularly sensitive, as the sector will need to avoid creating a tense dual labour market in its midst, pitting against each other older workers with relatively stable working conditions and younger workers on temporary contracts whose work lives are very precarious.

Clearly, some socio-political prerequisites will need to be established before we can improve working conditions in the sector. Other than the obvious need to increase funding from various levels of government, the low union density in the sector is something that must be addressed. However, the relationships between the nonprofit sector and the union movement in Canada are complex. Increasing the proportion of workers in the sector represented by unions might be one part of the solution, but other strategies can be developed with or without unionization, as is the case in Quebec, where organizations participating in the pension plan do not need, and often do not want, to be unionized. Nor is it obvious, on the other hand, that trade unions want to unionize all nonprofit workers.

That is an important takeaway message. Unionization is one avenue to promote better benefits (including pension benefits) in the nonprofit sector, but it is a solution that will not fit all nonprofit workplaces given the historical tensions that exist between the union movement and the nonprofit sector. Therefore, strategies for nonprofit sector pension plans should be designed to serve both unionized and non-unionized nonprofit workplaces.

We argue that provincial institutional arrangements that can be "sector-wide" and based on voluntary adhesion/joining probably offer one of the best avenues for progress in the field of pensions and other working conditions in the Canadian nonprofit sector. The Quebec example with the RRFS-GCF plan is particularly interesting in our view. Its conditions of success included state legislative support, nonprofit sector-driven leadership, limited union support, strong women's movement support, audacity, and the belief that if you build something adapted to their needs and constraints, workers will join in. A key is to approach this development as a socio-political process first and a technical issue second. Approaching it the other way around, as a technical-actuarial issue that needs to be figured out first to be followed later by the development of a political will, is less likely to be successful.

Nonprofit sector champions of pension plan reforms might also, in the end, need to accept that nonprofit pension plans might not offer all the same features or levels of benefits found in those of the more affluent public sector. Yet this should not prevent provincially based supplementary, multi-employer plans from being set up, as they are badly needed in the sector. A further step, as envisaged by the Senate committee's report, will be for the federal government to eventually gain the political will to work with the sector in advancing proposals for a countrywide, portable pension plan. The sector and its allies need to advocate to ensure that progress continues to be made on these nonprofit pension plan issues.

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Notes

[1] The Ontario Nonprofit Network Task Force highlights the lack of evidence-based research on the nonprofit sector: "[...] despite the fact that the nonprofit sector is a significant employer representing 2.6 percent of Ontario's GDP, sector-specific research and comprehensive databases are largely unavailable." (ONN, 2017: 5). Yet, despite this lack of research, many ambiguous representations circulate in the public space regarding the nonprofit sector.

[2] The CFP (Centre de formation populaire) is a community-based research and training centre. Relais-femmes is a women's research umbrella organization. The RIOCM (Regroupement intersectoriel des organismes communautaires de Montréal) is an umbrella organization for 300 nonprofits working in the fields of health, social services, immigration, and advocacy rights.

[3] Since the number of children in Quebec under six years of age was 531,617 in July 2018, the 303,341 spaces mean that there are spaces for 57% of children.

[4] The report was more specific regarding health benefits, providing an appendix prepared by Medavie Blue Cross (a nonprofit insurance company that administers various government-sponsored health programs) that outlined a proposal for group benefits coverage for the nonprofit employees throughout the province.

[5] This action-research was made possible with the participation of the UQAM Service aux collectivités, Centraide Montréal, and the SACA (Secrétariat à l'action communautaire autonome). SACA, an agency of the Government of Quebec, is now called SACAIS: Secrétariat à l'action communautaire autonome et aux initiatives sociales.

[6] Indexing is conditional on the plan's financial situation. The plan is designed with a significant indexing reserve, equal to ± 50% of liabilities, in order to weather the ups and downs of markets and to be able to index benefits to the cost of living, before and after retirement, based on the financial situation of the plan.

[7] The importance given to the Quebec experiment and the Lizée contribution is obvious when we read the ONN Report (ONN, 2017: 36–39; Lizée, 2015).

Biography

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Luc Thériault holds a PhD from the University of Toronto. He is professor of sociology and chair of the Department of Economics at the University of New Brunswick (Fredericton). His main interests are studying nonprofit and charitable organizations (as well as co-operatives) in order to understand the challenges they face and the contributions they make to our collective lives. He also has a research interest in public and social policies, in particular as they relate to topics such as social assistance, housing, and immigration.

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The People Environment: Leaders, Employees, and Volunteers

Chapter 20

Volunteering: Global Trends in a Canadian Context

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Volunteering continues to play an essential role in the provision of programs and services, community governance, public policies, and democracy around the world (Kamerade, Crotty, & Ljubownikow, 2016; Turcotte, 2015). In Canada, 24.5 million volunteers contribute five billion hours annually, formally and informally, to help people directly or through organizations working in diverse areas – including health and social services, arts and culture, sports and recreation, education and research, law and advocacy, housing and development, the environment, human rights, international development, and philanthropy (Statistics Canada, 2021). Volunteer efforts in 2017 were valued at almost $56 billion and 2.5% of Canada's GDP (Conference Board of Canada, 2018). In addition to the value of the time that volunteers contribute, there is growing recognition of the many benefits of volunteering for neighbourhoods (social capital and social cohesion), organizations (increased capacity and cultural competencies), workplaces (improved employee engagement and public profile), society at large (better public policy and citizen engagement), and volunteers themselves (skills development and a sense of belonging) (The Millennial Impact Report, 2017).[1]

With the emergence of the do-it-yourself movement, the shared economy, and web-based technologies, volunteering is no longer confined to defined roles within structured organizations. People are raising awareness about causes they care about, fundraising to support others in their networks, and coordinating major events outside of organizations. They express their values through their sense of individual social responsibility throughout the day, rather than through specified "volunteer time" (Volunteer Canada, Recognizing Volunteering, 2017). Shifting demographics and generational characteristics have also influenced volunteering behaviours, most notably among the millennial cohort (those born between 1980 and 2000), who now comprise 37% of the workforce (Environics Institute, 2017).[2] Despite the expanding and changing nature of volunteering, however, the rate of *formal* volunteering, which is defined broadly by Statistics Canada as "activities without pay on behalf of a group or organization … [including] schools, religious organizations, sports or community associations" (Vezina & Crompton, 2015: 38), appears to be decreasing. This trend has continued, and by 2018 the formal volunteering rate had dropped to 41%; however, *informal* volunteering (defined by Statistics Canada as "directly helping people outside your household") was measured for the first time, with the combined rate of 79% of people 15 and older volunteering either formally or informally (Statistics Canada, 2021). This chapter will explore the social, practical, and policy implications of the evolving nature of volunteering in a Canadian context as it relates to global trends.

Volunteering in Canada: An Overview of Trends

Statistics Canada has been tracking volunteering behaviour since 1997 through the Canada Survey of Giving, Volunteering and Participating, which has been integrated into the General Social Survey since 2010. Table 1 highlights the changes in formal volunteering for Canadians aged 15 and older over time, with the most recent survey showing a volunteer rate of 43.6%. The *formal* volunteer rate dropped from 47% in 2010 to under 44% in 2013, and 41% in 2018, and the average number of hours also decreased, from 156 hours in 2010 to 154 hours in 2013, to 131 hours in 2018. What could account for the changes in formal volunteer rates over time? Several explanations have been offered, including the aging population, increased caregiving demands on families, the changing nature of paid employment, and the rise in informal volunteering (Battams, 2017).

Table 1: Changes in Volunteer Rates, Average Hours, and Numbers 1997–2013

	1997	2000	2004	2007	2010	2013	2018
Volunteer Rate (%)	31.4	26.7	45	46	47	43.6	41
Average Hours Per Year	149	162	168	166	156	154	131
Number of Volunteers (millions)	7.4	6.5	11.8	12.4	13.3	12.7	12.7

(Sources: Statistics Canada, Canada Survey of Giving, Volunteering and Participating, 1998, 2000, 2004, 2007, 2010 and 2013, and 2018)

In Canada, there are significant differences in volunteer rates among the provinces and territories (see Table 2). With the national volunteer rate at 44%, Saskatchewan has the highest rate (56%) and Quebec has the lowest (32%). Many theories about these differences have been put forward; however, none have been conclusively proven. Let's consider the possibilities:

- *Age distribution:* A province or territory with a higher proportion of older adults will have a lower volunteer rate, and vice versa (Sinha, 2015).
- *The level of public services offered*: A province with higher taxes and more public services requires fewer volunteers (Savard, Bourque, & Lachapelle, 2015).
- *The urban-rural split*: Rural communities may have greater cohesion. People know each other, and social networks and extended families are available to provide support (Birtch, 2017).
- *The degree of homogeneity*: Neighbourhoods that are homogenous have greater capacity to create cooperative and mutual support models.
- *The rate of population mobility or stability*: When people live in a community for longer, they develop attachments to the place, people, and organizations, and they feel a greater sense of responsibility for each other (Horwitz & Woolner, 2016).
- *The culture*: Differing social structures, history, and traditions incorporate mutual aid communality in different ways (Institut Mallet, 2015).

Table 2: Volunteer Rates (%) in Provinces & Territories by Age Group

Province	Total (43.6%)	15–24	25–34	35–44	45–54	55–64	65–74	75+
Newfoundland and Labrador	46.4	66.77	41.7	49.2	51.8	39	37	22.6
Prince Edward Island	50.4	44	37.5	55.6	52.2	42.9	64.3	30
Nova Scotia	50.9	72	47.8	62.1	54.8	39.6	41.2	28.4
New Brunswick	40.6	55.6	36.7	41.9	42.2	33.6	40.8	30.8
Quebec	32.1	40.1	34.4	38.7	31.3	27.1	26.3	19.8
Ontario	44.3	55.9	41.4	45.5	45.9	43.6	40.1	27.1
Manitoba	52	61.7	52	54.7	49.7	49.4	44.4	43.6
Saskatchewan	56.2	61.6	54.4	66.2	53.7	54.8	53.7	38.6
Alberta	50.1	56.3	43	56.7	58.1	46.3	42.9	31.1
British Columbia	49.1	53.6	50.5	53.1	52.1	48.4	45.3	30.9

How do Canadian volunteer rates compare to other high-income countries? With a national rate of almost 44%, we compare favourably, although we share the downward trend. In the US, the national volunteer rate (among those aged 16 and over) is 25% (U.S. Bureau of Labor Statistics, 2018); in Australia, 31% (for those over 18) (Australian Bureau of Statistics, 2015); and in the UK, 47% (Cabinet Office, 2016). As in Canada, the trend in all three countries is a declining rate of formal volunteering and a possible rise in informal volunteering or direct assistance. This speaks to the changing nature of volunteering, which is elaborated on in the next section.

Who Is a Volunteer? Expanding Definitions

Sociopolitical shifts affect the lives of individuals and how they interact with others; these same forces also influence how and why people decide to get involved in their communities, and thus shape our understanding of who is a volunteer. Given these changes, then, it is important to examine what we mean by volunteering and to acknowledge the ways in which it has expanded and continues to evolve over time. The common definition of volunteering is "time given by choice without compensation" (Volunteer Canada, Canadian Code for Volunteer Involvement, 2017; "Volunteer Work," n.d.). While on the surface this may seem self-explanatory, it invites us to delve further into how we define *choice* and *compensation.* Does "by choice" mean without undue influence? Does "without compensation" mean without receiving anything in return? When the concrete benefits of volunteering have become so compelling and the consequences of not volunteering can create significant disadvantages, these terms have become relative and often meaningless. Do we consider employees volunteering to support a workplace fundraising campaign led by their manager to be doing so "by choice"? Can we consider getting into a competitive university social-work program by listing one's volunteer hours to be a form of compensation? In such circumstances, how do we differentiate among motivations, benefits, and concrete compensation for volunteering?

Despite extensive literature on the subject of volunteering, a universally applicable definition of volunteering, and who is a volunteer, remains elusive. The difficulty of reaching consensus on this subject is due in part to the notion that volunteering is, like many social phenomena, a social construct that is both constructed and constructs meaning through the interactions of individuals in a social space (Cnaan et al., 1996). From a social constructionist lens, then, investigating what it means to volunteer is less about reducing it to a convenient, concise definition and more about examining how individuals understand their own distinctive experiences of what volunteering is to them and their communities. Such an approach is fruitful in that it builds on our broad, open-ended definition of volunteering by allowing us to consider more intimately the experiences of individuals and communities as we conduct research, create policy, and establish organizational practices around volunteering.

An alternative way of understanding when and why individuals volunteer, by systematically calculating costs, is rooted in economics and is known as the net-cost approach. Following this approach, a rational individual will engage in voluntary actions when the private benefits of the action to the individual exceed the private costs. However, if the individual includes the public benefits of the action in their personal calculations, it may appear to an onlooker that the action has greater costs than benefits (Cnaan et al., 1996; Handy et al., 2000). Tested on samples in several countries, including Canada, net-cost is a theoretical approach to understanding volunteering that offers additional clarity for determining what constitutes voluntary action, and what does not.

Such approaches leave open the question of choice: can we consider that someone has volunteered *by choice* when their choice is highly influenced by its potential impact on a future career path and livelihood or by power dynamics within the workplace? One activity that highlights the issue of "discretionary" versus "compulsory" is mandatory community service –

community involvement that is required by legislation, policy, an educational program, or the judicial system. This includes high school graduation requirements, social assistance guidelines, community service learning initiatives, and alternative sentencing programs. Mandatory community service often involves monitoring, verification of hours, and administrative arrangements. If volunteering is by choice and without compensation, can we consider mandatory community service a form of volunteering? We will examine the objectives of these programs further in the section on public policy.

Types of Volunteering

Various terms have emerged in response to the evolving nature of volunteering, reflecting the changing demographics, social-political shifts, global trends, and technological advances. It is interesting to look at these concepts through the lens of the key elements of the broad definition of volunteering being "by choice" and "without compensation." In this section, we examine different forms of formal volunteering, which are not necessarily mutually exclusive and, in many cases, overlap, and we consider what they illustrate about broader trends.

> *Ongoing or long-term volunteering* involves a longer-term commitment, generally with a regular schedule within an organization. This may be in the form of leading a weekly activity, having one-to-one time with someone, doing two shifts per month on a help line, or serving on a board or committee.
>
> *Short-term volunteering* refers to special projects and assignments that can generally be accomplished within six months. This can include reviewing the bylaws for an organization, serving on an event-planning committee, or filling in for a regular volunteer.
>
> *Episodic volunteering* refers to a planned, one-time, or occasional volunteer role such as serving at a registration table for a conference, decorating the room for a fundraiser, or participating in a park cleanup.
>
> *Surge volunteering* occurs when the public is motivated to help when an unexpected event such as a public health emergency, a natural disaster, a security incident, or an international refugee crisis arises. In recent years, we have experienced forest fires, flooding, ice storms, the SARS pandemic, and large-scale funeral services following violent tragedies. This can create challenges when there is no designated central clearinghouse. Another form of surge volunteering can occur when a community hosts an international sporting event, such as the Olympics; however, these events have the advantage of being anticipated.
>
> *Microvolunteering* refers to brief, single acts that are useful to an organization or a person and are typically emergent or flexible in terms of their timing. An example is an organization called Be My Eyes. If a person with visual impairment is in a grocery store and needs someone to read a label, they take a photo, send it out to the network, and the first person available can send a voice message back.

Skills-based volunteering is an approach to volunteer matching that focuses on the transfer of skills. It is further defined as a "service to non-profit and voluntary organizations by individuals or groups that capitalizes on the personal talents, core business or professional skills, experiences, or education, often for the purpose of building organizations' strength and capacity" (Points of Light Foundation, as adapted by Volunteer Canada, 2011). This can happen when a volunteer a) contributes specialized skills to an organization, b) serves as a coach, mentor, or advisor to an organization using specialized skills, or c) gains specialized skills through an experience in an organization.

Pro-bono services describes a type of volunteering in which a company provides the services it offers to the public at a cost to an organization at no cost, where the service is a) provided with the same standards as it would be for a paying client, b) undertaken by the firm and not necessarily by an individual, and c) monitored for quality as it would be for a paying client. Although skills-based volunteering and pro-bono services appear very similar, these scenarios illustrate the difference:

> The marketing coordinator in a bank may volunteer to lead a rebranding exercise for a youth addictions treatment centre. *This is skills-based volunteering*. The arrangement is between the individual and the organization. The bank does not offer marketing services and would not oversee or determine the standards of service for the volunteer assignment.
>
> A public relations firm agrees to provide consultation services to lead a rebranding exercise for a youth addictions treatment centre. *This is a pro-bono service*. A contract is drawn up. Consultants are designated. A manager will supervise the work, and the reports are produced under the name of the firm.

Virtual volunteering and remote volunteering refer to volunteer roles that do not need to be done onsite or in-person. They can be done for an organization in the volunteer's community or from anywhere in the world, doing newsletter editing or graphic design. Virtual volunteering can also be an adapted service-delivery mode, during an emergency, to continue services to vulnerable populations or support to organizations such as online tutoring, friendly visiting, mentoring, support groups, and social skills training, or facilitating online meetings and hosting webinars.

Employer-supported volunteering is some form of support for volunteering from an employer (Statistics Canada, 2015). One-third of Canadian volunteers report receiving such support, which includes paid time off, organized group activities, providing small grants to organizations where employees volunteer ("dollars-for-doers" program), and various forms of recognition. The benefits to workplaces include attraction of talent, employee engagement, workforce development, enhanced public profile, and strengthened stakeholder relations. The *Canadian Code for Employer-Supported Volunteering*[3] outlines values, guiding principles, and standards of practice to ensure mutually beneficial engagement between host organizations and businesses.

Table 3: Types of Employer Support for Volunteering (ages 15 to 64)

Type of Formal Employer Support	2013	2010	2004
Any type of support	55	57	57
Use of facilities or equipment	27	30	31
Paid time off or time to spend volunteering	20	20	21
Approval to change work hours or reduce work activities	34	35	33
Recognition or letter of thanks	19	24	23
Other	3	4	4
Donation of prizes, gift certificates	1	2	2
Financial donation to the organization	1	1	2
Donation of T-shirts or company goods	1	1	1
Sponsorship of an event; payment of entry fee or membership fee	1	1	1
Provision of transportation	0	1	0

Note: Only respondents who answered all the questions on formal employer support are included.

(Source: Statistics Canada, General Social Survey on Giving, Volunteering and Participating, and Canada Survey of Giving, Volunteering and Participating, 2004, 2010, and 2013)

> *Informal volunteering or helping* includes all the ways that we help people in our social networks, neighbourhoods, and communities (Benenson & Stagg, 2015; Wang, Mook, & Handy, 2017). It can include cooking a meal for someone in mourning, driving someone to an appointment, shovelling someone's driveway, or babysitting someone's children while they attend a night course.
>
> *Individual social responsibility* is the broadest concept of all. It refers to the many decisions and actions we take throughout the day that reflect our values, including, for instance, choosing to compost your orange peel in the morning, carpooling to work, buying coffee that is fair trade and local roast, investing in a social purpose fund, and refilling your carry-along water bottle (Volunteer Canada, Recognizing Volunteering, 2017).

In the US context, studies have found that groups that have been traditionally marginalized, such as those from lower-income segments of society and people of colour, tend to engage infrequently in formal volunteering but frequently in informal volunteering (Ahn et al., 2011; Burr, Tavares, & Mutchler, 2011). In the Canadian context, it has been suggested that Quebecers are less likely to engage in formal volunteering, because of a history of mistrust of anglophone-dominated institutions, but that they engage frequently in informal helping and volunteering and in community-based action (Reed & Selbee, 2000). Thus, as Gottlieb and Gillespie (2008: 400) note, "a socio-economic divide separates formal volunteers from those who do not volunteer through an organization." This divide is not only emblematic of larger social concerns and issues, but is further magnified through the prioritization of formal volunteering over informal volunteering in the research literature.

To avoid this problem, when studying the impact of volunteering both for individuals and communities, researchers should consider broadening their definitions of who is a volunteer and what it means to volunteer in order to encompass the numerous activities – both formal *and* informal – that individuals in Canada and elsewhere carry out every day. To exclude any of these “non-traditional” forms of volunteering from our conversations discredits the efforts of volunteers and skews our understanding of the phenomenon at all levels. Statistics Canada has already begun to collect data on informal volunteering and direct helping, reporting that 83% of Canadians engaged in informal volunteering in 2010 (Vezina & Crompton, 2015).

Motivations to Volunteer

When people complain that they don’t have the time and resources to meet their needs and those of their loved ones, why do they still give away the very resources they value most: time and money? Canadians volunteer many hours annually, and volunteering activities often are costly to the volunteer, both in time spent and out-of-pocket costs such as transportation or daycare. To appreciate why volunteers willingly incur such costs, we need to understand what motivates them.

Research has established that volunteers are motivated to take on volunteer activity at a cost to themselves for multiple reasons (Cnaan & Goldberg, 1991; Wilson, 2015). A formalization of the motives to volunteer has been systematically undertaken and various models and scales developed to assess these motives, the most common of which is the functional model: the Volunteer Functions Inventory (VFI), first advanced by Gil Clary and his colleagues (1992, 1996, 1998) and then modified to include six general motivational functions. Adding to this model, Esmond and Dunlop (2004) developed the Volunteer Motivation Inventory (VMI) model based on further research and modifications to the original VFI to create a set of 10 general motivations for volunteering: values, reciprocity, recognition, understanding, self-esteem, reactivity, social interaction, protective, and career motivations.

In the Canada Survey of Giving, Volunteering and Participating (Statistics Canada, 2004, 2007, 2010) and the General Social Survey: Giving, Volunteering and Participating (Statistics Canada, 2013), volunteers were asked about their reasons for volunteering for the organization to which they contributed the most hours: “*Thinking about the reasons why you volunteered in the past 12 months on behalf of this organization, please tell me whether the follow reasons were important to you…*” The results, as seen in Table 4, show that the reasons given by Canadians has remained relatively stable over a period of years, with the exceptions of volunteering because of the involvement of friends or because of religious obligations. More specifically, 18% of volunteers in 2013 said that fulfilling religious obligations or beliefs motivated them to volunteer, down from 22% in 2004.

Table 4: Reasons Canadians Volunteer

Reason for volunteering	% of volunteers responding "Yes"			
	2004	2007	2010	2013
To make a contribution to the community	92	93	91	93
To use skills and experiences	77	77	76	77
Personally affected by the cause the organization supports	60	59	57	60
To explore one's own strengths	49	50	47	48
To network with or meet people	47	48	45	46
Because friends volunteer	43	47	47	39
To improve job opportunities	22	23	21	22
To fulfill religious obligations or beliefs	22	22	21	18

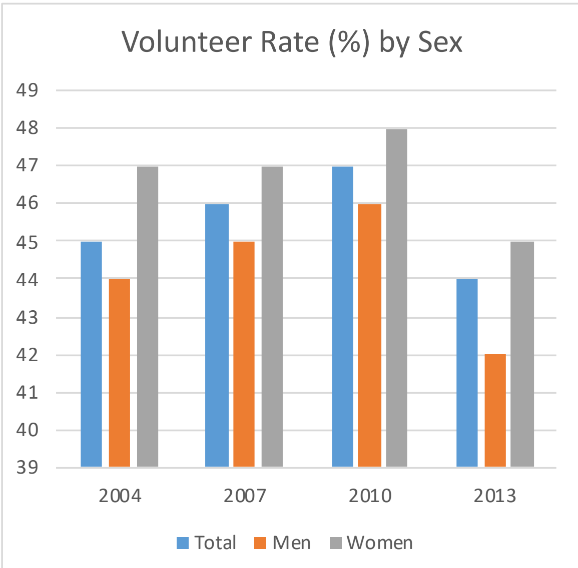
(Source: Statistics Canada, Canada Survey of Giving, Volunteering and Participating, 2004, 2007, 2010, 2013)

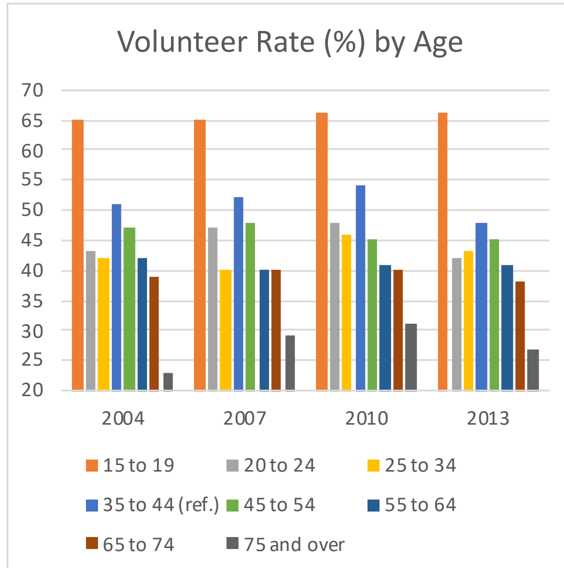
Volunteering through Stages, Ages, and Life Circumstances

People's choices about volunteering reflect not only their motivations, interests, and availability, but also other characteristics, such as age, life stage, and circumstance (Volunteer Canada, Recognizing Volunteering, 2017). Indeed, Canadian volunteering rates change across the life course. As shown in Figure 1, youth (ages 15 to 19) have the highest volunteer rate, followed by a drop for young adults, a peak for those between 35 and 55 years old, and then a gradual decline for older adults (Statistics Canada, 2015). In adolescence, volunteering may be a vehicle for both exploring and expressing values and developing a sense of identity and purpose.

Though the volunteer rate has been consistently the highest for youth aged 15 to 19, the average number of hours per year is also the lowest for this age group (Statistics Canada, 2015). On the other end of the age spectrum, older adults, many of whom are no longer in the paid workforce, have a lower volunteer rate but volunteer the most hours on average per year. Among adults in the middle stages of life, those with school-age children living at home tend to have a high volunteer rate and give above-average numbers of hours each year. Overall, adults between the ages of 35 and 55 tend to volunteer at consistently high rates, despite multiple demands on time from work, family, and other obligations.

Figure 1: Volunteering Rates by Sex and Age





(Sources: Statistics Canada, General Social Survey on Giving, Volunteering and Participating, 2013, and the Canada Survey of Giving, Volunteering and Participating, 2004, 2007, 2010)

In addition, life circumstances have been shown to have a significant influence on volunteering patterns and motivations and the benefits that result. Those preparing to return to the paid workforce after a parental leave, illness, or period of unemployment may be focused on opportunities to rebuild their endurance for work, refresh or develop new skills, or network. Those who are new to a community may be looking to gain Canadian experience, make social contacts, and learn more about their new environment. In the next section we explore in more detail the impacts of life stage and circumstance on volunteering to illustrate the complexity and diversity of the volunteer experience among different groups and individuals.

Youth and Young Adult Volunteering

According to 2013 data from the GSS, two-thirds of youth aged 15 to 19 volunteer, making them the age group most likely to volunteer in Canada (Turcotte, 2015). Volunteering is also prevalent among young adults, especially those attending university. Gronlund and colleagues (2011) found that nearly 80% of Canadian university students surveyed as part of a cross-national study engaged in some form of volunteering, compared to about 42% of all 20- to 24-year-olds (Turcotte, 2015). This study also reported that altruism, learning, and resumé-building were the strongest factors motivating Canadian university students to volunteer (Gronlund et al., 2011).

Studies of volunteering and calculations of the value of volunteer time (by Independent Sector, for instance) typically consider only the contributions of youth who are at least 15 to the neglect of younger volunteers (Shannon, 2009). Among the limited research on the under-15s, Shannon (2009) found that young volunteers who were also members of the Boys and Girls Club in

Atlantic Canada engaged primarily in fundraising tasks and those that supported club staff or assisted other community members such as the elderly. Despite barriers attributed to time constraints and availability of age-appropriate opportunities, among other factors, youth report that they find volunteering fun and rewarding and say that they, too, volunteer in response to a request or need.

The phenomenon of youth volunteering (at all ages) will likely continue to grow as Canadian schools continue to make volunteering mandatory. Ontario first began requiring students to complete at least 40 hours of volunteer work before graduation in 1999 (Gallant, Smale, & Arai, 2010), and as of May 2018, seven of the 13 provinces and territories have some form of mandatory community-service program in high school (Sagan, 2015). These programs are intended to foster civic engagement, with the goal of encouraging a lifelong commitment to active involvement in the community through volunteering and other means.

A "pro-volunteering" attitude is implicit in these policies. Although the number of hours and form of these mandatory activities differ from province to province, such programs will undoubtedly impact the way in which young Canadians experience volunteering, as well as the extent to which they become and remain involved in volunteering. Indeed, Turcotte (2015) estimates that about one-fifth of all youth volunteers between ages 15 and 19 volunteered because it was required by their schools.

Despite these policies promoting youth engagement, and despite relatively positive official statistics about youth and young adult involvement in volunteering, there remains widespread concern and apprehension about the extent to which younger Canadians volunteer in meaningful ways. For example, recent hearings by the Special Senate Committee on the Charitable Sector reflect policy-makers' concerns and assumptions about millennials' limited involvement in volunteering and giving. Indeed, much has been made in both academic and popular publications about the differences in motivations, interests, and behaviours between millennials and previous generations (e.g., Campione, 2016; Einolf, 2016; Smith, Cohen, & Pickett, 2014), offering strategies that reflect millennials' use of technology, their need for "meaning" and personal connection to a cause, and their limited financial resources (Ray, 2013; Smith, 2018).

While such insights may provide helpful guidance for nonprofit leaders, it is important to note that anxiety over the potential of future generations is a common and prevailing theme in high-income countries. Such concerns are exacerbated by the continued use of generational labels (such as "millennials" and "baby boomers"), which may encourage the magnification of difference and distance between age cohorts (Gullette, 2004), and a preoccupation with the "problem" of an aging workforce, commonly cited in both research and policy (Ng, Gossett, & Winter, 2016). Thus, in looking to encourage younger people's involvement in volunteering, practitioners and policy-makers should be careful to avoid generational stereotyping and instead look for authentic and meaningful ways to engage with individuals at all ages.

Volunteering in Older Age and Retirement

In Canada, people 75 and older are the least likely age group to volunteer (Turcotte, 2015). However, while people become less likely to volunteer after 65, those who do volunteer at this age (and beyond) devote more hours on average than younger groups, suggesting that older people represent a significant proportion of all volunteer time in Canada (Cook & Sladowski, 2013). Despite some concerns about whether baby boomers will volunteer to the same extent as older age cohorts as they approach retirement, research indicates the opposite: they are engaged. For instance, Einolf (2009) predicted, and affirmed, that the boomers would volunteer at higher rates than earlier generations, attributing this finding in part to changing social norms and expectations around the meaning of retirement, as well as the sheer numbers of boomers as compared to earlier generations. From a volunteer administration standpoint, Tang, Morrow-Howell, and Hong (2009) found that training opportunities and recognition of volunteers' contributions made older people more likely to remain engaged in long-term volunteering. In addition to their involvement in formal volunteering through organizations, older adults also engage in informal volunteering and caregiving activities for family members and relatives, which are most often undertaken by older women due to the traditionally gendered nature of care work (Warburton & McLaughlin, 2006).

Thus, like other age groups, older adults engage in many different types of volunteering, carrying out numerous tasks on behalf of faith organizations, political groups, schools, and nonprofits, as well as engaging informally outside of organizations (Hank & Stuck, 2008; Hook, 2004; Taniguchi, 2011). In many cases, these activities reflect a lifelong commitment to civic engagement or long-term interest in volunteering. Research suggests that the likelihood of volunteering after age 65 (i.e. in retirement) is higher among those who volunteered during their younger years (Butrica, Johnson, & Zedlewski, 2009; Einolf, 2009). Undoubtedly, just like volunteering in the general population, volunteering among older Canadians is not a monolith; it encompasses a wide variety of unique experiences and approaches through which older adults choose to contribute to their communities and to society.

In addition to the societal benefits of volunteering at any age, research has demonstrated a link between volunteering and improved well-being and health outcomes, especially among older cohorts. Studies have provided quantitative evidence for the mental, physical, and social benefits of volunteering, leading researchers and practitioners to advocate for volunteering as part of a "positive psychology of aging" (Gottlieb & Gillespie, 2008: 404).[4] While the vast majority of quantitative findings are derived from US datasets, Canada-based research has provided rich qualitative findings to support these claims.

In a photovoice study with 30 older adults in Manitoba, Novek and Menec (2014) found that participants frequently photographed activities, including volunteering, to illustrate how these activities factored into making their communities "age-friendly." Likewise, Narushima (2005) conducted a qualitative study of older adult volunteers in several nonprofits in Toronto, concluding that the volunteers maintained high levels of well-being through their volunteering. With a specific focus on volunteering in Canadian community sports organizations, Misener, Doherty, and Hamm-Kerwin (2010) found that older people derived overall positive experiences, especially with regard to social engagement and a sense of purpose and identity.

Several theories have been suggested to explain the link between volunteering and well-being in older age, such as role theory, or the way in which volunteering may buffer against decline in older age by substituting for roles lost in retirement or with the cessation or changing nature of caregiving activities (Smith, 2004). In general, however, it seems that volunteering represents an activity that unites all four points in the "life-span diamond" (relational resources, physical well-being, positive mental states, and engaging activity) proposed by Gergen and Gergen (2001), suggesting that it can be a powerful part of positive aging for individuals and their communities. However, more research is needed to understand the role that volunteering plays in the lives of older people, what mechanisms might link volunteering with improved health and well-being among this age group, and how policy-makers and practitioners might go about supporting the volunteering of older adults to best promote both community and individual needs, motivations, and goals.

Volunteering among New Canadians and Immigrant Populations

Immigrants occupy a significant place in Canadian society: they represent approximately 22% of the population, with another 18% consisting of second-generation children of immigrants, according to the 2016 census. Between 2011 and 2016, approximately 1.2 million new immigrants arrived (Statistics Canada, 2017), making the "immigrant" population a mix of relative newcomers as well as more established households.

Although research is still limited, the role volunteering might play in the lives of new immigrants is receiving more attention. In the Canadian context, these inquiries tend to focus on the way in which volunteering functions as a means of integrating into the host society, as well as its role in providing avenues for economic advancement through the development of new skills and social networks. Employment considerations may be of particular interest in part because immigrant populations have been identified as vulnerable to labour-market exclusion (Fang & Gunderson, 2015).

Indeed, "the Government of Canada explicitly encourages new immigrants to volunteer," as noted by Wilson-Forsberg and Sethi (2015: 92). Given the level of discrimination and loss of status often experienced by immigrants in the workplace and in society more broadly (Dlamini, Anucha, & Wolfe, 2012), it is suggested that volunteering might be one way to overcome these barriers to economic mobility and social inclusion in Canadian society. Evidence seems to support this. According to a study by Volunteer Canada, approximately 39% of immigrants over the age of 15 in Canada participated in some form of volunteering in 2010 (Speevak & Hientz, 2012).

Asking whether volunteering is an effective means to alleviate "the stress caused by relocation" among immigrants and to promote social and human capital, Handy and Greenspan (2009: 956) conducted surveys, focus groups, and in-depth interviews with immigrants recruited through religious congregations in Halifax, Regina, Toronto, and Vancouver. They found that participants volunteered at a very high rate (about 85%) and that they gained opportunities to connect with others, thus mitigating feelings of isolation. In addition, some participants shared anecdotes in which immigrants gained knowledge of their new country and employment opportunities as a result of their volunteer experiences (Handy & Greenspan, 2009: 972). Similarly, a study of Chinese immigrants in Vancouver (Guo, 2014) found they used volunteering as a means to gain language and other skills that later facilitated their social and civic participation in the broader Canadian society; volunteering also helped them to feel that they belonged within a smaller, more localized community.

Although these studies point to the potential of volunteering to alleviate some of the social and economic strain of the immigration process, others critique such claims, questioning whether immigrants truly "volunteer voluntarily" (Wilson-Forsberg & Sethi, 2015). Contrary to the "unchallenged dogma" touted by the government, Wilson-Forsberg and Sethi (2015: 92–93) argue that volunteering does not so much improve immigrants' access to good jobs as perpetuate a "deficit model of difference ideology," in which immigrants are encouraged to conform to Canadian norms and expectations through whatever means necessary.

This perspective is reinforced by an earlier study of immigrant women volunteering and working within the Canadian immigrant-settlement sector (Lee, 1999), which found that volunteering did not typically yield secure paid employment; instead, immigrant women often reported that they felt exploited, dissatisfied, and undervalued by Canadian-born colleagues. Nevertheless, the possibility of gaining the invaluable line-item of "Canadian work experience" for their resumés motivated the women to endure these feelings and continue to volunteer or work in low-paying, temporary positions (Lee, 1999).

From a broader standpoint, Wilkinson (2013: 2) remarks that integration is "a non-linear … [and] uneven process that can result in significant success in some institutions, but failure in others." Wilkinson (2013) further points to the reciprocal nature of the integration process, noting that it is not only about the efforts of immigrants but also reciprocity of these efforts on the part of the broader community. As such, while volunteering may indeed benefit some immigrants, like all processes of community integration it is complex and varied, rather than guaranteed. Additionally, we must be willing to acknowledge and closely examine the ways in which measures of volunteering and other forms of "community engagement" on the part of immigrants have been used implicitly (and, at times, *explicitly)* as justification for nativist, xenophobic, and racist attitudes in Canada and elsewhere in the West (Kazemipur, 2011). Thus, these critiques should be taken into account when we think about current and future possibilities for volunteering and its role in immigrants' lives and in the broader Canadian society.

Volunteering and Public Policy

As volunteers take on more expansive and sophisticated roles in society and as governments seek to enhance the extent of volunteering, the role of public policy *for* volunteering and *in* volunteering has become more increasingly important, and increasingly complex. In this section, we discuss policies for organizations that engage volunteers, including those that protect volunteers and protect organizations from potentially unethical volunteers, and policies that seek to promote volunteering.

Public Policy That Protects Volunteers

Organizations are responsible for the quality and safety of their programs, services, and all actions undertaken in their name, and they are responsible for providing a work environment that is safe and free from harassment and discrimination, whether for employees, students, community service participants, or volunteers. In recent years, such obligations and rights, which were originally designed to apply to paid employees within the public and private sectors, have been extended to those in the nonprofit and charitable sector and to volunteers. This includes legislation in areas such as human rights, employment standards, youth protection, occupational health and safety, access to information, and protection of privacy, disabilities, mental health, and labour law (Volunteer Canada, 2012).

Concerns over liabilities while volunteering have grown in recent years. In terms of shielding volunteers from such claims, Nova Scotia is the only province in Canada that has a Volunteer Protection Act, enacted in 2002. This legislation was designed to protect volunteers from personal liability for incidents that occur while volunteering, excluding "willful or criminal misconduct or when the volunteer was operating a motor vehicle" (Department of Justice, 2001). The act covers only those activities that fall under the scope of the volunteer's regular activities, however, leaving some room for interpretation and gaps in application.

Volunteer Resource Management Practices

Nonprofits and charities are moving toward an integrated human resource management system in response to the legislative interpretation that does not differentiate between paid employees and volunteers. With the exception of (volunteer) recognition and (employee) compensation, volunteer resource management practices include job design, risk assessment, recruitment strategies, applications, interviews, reference checks, police record checks or vulnerable sector checks (when appropriate), orientation, training, supervision, evaluation, and recognition. Resources for volunteer resource management practices include:

The Canadian Code for Volunteer Involvement

The Screening Handbook

The Canadian Code for Employer-Supported Volunteering

The Value of Volunteering Wheel

Assurances that volunteers act in an ethical manner has led to a long-standing practice of volunteer screening. Volunteers working in positions of trust with vulnerable[5] populations have to undergo a "vulnerable sector check" through the Royal Canadian Mounted Police (RCMP). Since 2018, mandatory digital fingerprinting is part of this process. While these electronic files must be deleted upon completion of these checks, some prospective volunteers remain uncomfortable with such information being collected. In addition, a credit check – on the assumption that someone with a poor credit rating is more likely to engage in fraud or theft – has become increasingly common as part of a screening process, particularly for volunteers applying for positions that have signing authority or access to money and other assets. Again, many have questioned this assumption and consider a credit check to be an invasion of privacy. Whether increased screening, in a more radically transparent, digital society, actually deters people from volunteering, however, is an open question.

Beyond specific requirements for engaging volunteers, broader questions arise involving the relationship between volunteering and the labour movement (Calvert, 1985; Thacker, 1999). Specifically, how do we ensure that volunteering does not erode paid employment? There have been efforts to develop a protocol that would, for example, include that volunteers do not a) replace or displace paid employees (i.e. do not undertake a task that has been done by a paid employee in the past 12 months), b) enter the workplace during a strike, and c) work more than 12 hours per week (Volunteering England, n.d.). In unionized environments, all new volunteer assignment descriptions must be vetted by the union to ensure that they do not include tasks that are part of a bargaining-unit position. In addition, there has been some confusion between volunteer roles and unpaid internships. In Canadian jurisdictions, unpaid internships need to be connected to an educational program whereby the intern contributes their time and skills to an organization and the organization attends to their specific learning objectives.

Public Policy That Promotes Volunteering

The policy interests of federal, provincial/territorial, and municipal governments include promoting citizen engagement, reinforcing resilient communities, and supporting vulnerable populations. Governments have sought to promote volunteering through "soft" policies, such as promoting a culture of volunteering and service programs that match volunteers to opportunities, and through mandatory requirements for students, social service recipients, or those in the criminal justice system, with a view that such experiences produce ongoing interest.

While some may see a natural connection between these policy interests and volunteering, others may view governments' interest in promoting volunteering as a means of downloading government services. This tension played out most acutely in the UK's 2010 Big Society program that supposedly sought to give greater power to communities and encourage people to be more engaged but that was accompanied by austerity measures, so it never gained widespread sector support (UK Conservative Party, 2010; Macmillan, 2013). Across Canada, various strategies have been used by different orders of government, including volunteer service awards, volunteer promotion campaigns, funding programs that support volunteerism, and volunteer service programs such as the Canada Service Corps, launched in 2018, that seeks to "engage and inspire" youth (Government of Canada, 2018).

Do these efforts actually increase volunteering? The policy rationale is that by showcasing volunteers through awards programs, others are inspired to volunteer and that such recognition increases volunteer retention, although research has been inconclusive (Walk, Zhang & Littlepage, 2019). Government campaigns that encourage people to volunteer are often met with mixed reactions. While funding programs that support volunteer programs can provide a boost to individual organizations or neighbourhoods, they require infrastructure to recruit, train, supervise, and recognize volunteers. And it can be challenging to sustain the level of activity if funding is short-term. Follow-up studies with participants of government-run international volunteer placement programs indicate that people are more likely to volunteer at home upon their return (Lough & Tiessen, 2018). In sum, while the rationale for volunteer promotion programs seems compelling, their ability to actually enhance volunteering depends to a great extent on the specifics of policy implementation, and particularly on ensuring adequate capacity of charities and nonprofits to host an influx of well-meaning volunteers.

Mandatory community service programs that are associated with education, social assistance, or the criminal justice system seek to *promote citizenship* (a sense of belonging and responsibility), *develop skills* to help people gain experience and (re)integrate into the community or (re) enter the workforce, or *make restitution* by repairing damage done or making amends for a wrongdoing. While these objectives may seem worthy on the surface, evidence on their effectiveness in promoting continued volunteering is mixed (Sagan, 2015), and they pose ethical and practical challenges. In particular, vigorous debate continues as to whether making volunteering compulsory in high school has a positive impact on the lifelong propensity to engage in volunteering and other civic behaviours. For example, Gallant and colleagues (2010) found that university students' perceptions of the quality of their mandatory volunteering experiences during high school were a significant positive predictor of civic participation and attitudes toward social responsibility. These findings suggest that there may be a link between volunteering in youth and future volunteering, regardless of whether the volunteering is mandatory. However, as the authors point out, this link is predicated on the ability of community organizations, in partnership with public schools, to generate the resources and support needed to provide "high-quality" opportunities to youth volunteers – a task that is easier said than done (Gallant, Smale, & Arai, 2010). Thus, the implications of mandatory volunteering programs – not only for the youth, but also for the community organizations that host them – must be taken into account when developing policies at the provincial and territorial levels (Brudney & Russell, 2016).

For all types of mandatory community service, nonprofit and charitable organizations may not have the capacity to host increased numbers of community-service participants. Resources are needed for intake, training, and supervision. In addition, the mandatory nature of these programs, particularly to gain social-assistance benefits or reprieve from further criminal justice sentences, are often perceived as coercive and potentially humiliating for participants. In British Columbia, for instance, social assistance recipients can apply for a "community volunteer supplement" (CVS), receiving an extra $100 per month (Volunteer Canada, Code for Volunteer Involvement, 2017). Whether this practice is coercive or beneficial to participants beyond the financial incentive is up for debate. Community-service orders are also administered by provinces and territories, when deemed appropriate, as an alternative to prison sentences that are less than two years. Though the guidelines vary between jurisdictions, the common rationale is that "by performing community service the young person/adult offender not only repays the community for the harm done but has the opportunity to find outlets in the community for developing skills, new interests and abilities." The question remains, however: if such programs are mandated by school and government policies, should they still be considered volunteering?

Another set of policies includes those pertaining to community service learning – which is voluntary but also increasingly compulsory. Community service learning is a curriculum-based assignment or course that allows students to meet their learning objectives through service in the community, as a complement to, or in place of, classroom learning and reading. For example, this might include serving as a program assistant for a social skills group for people with autism in order to learn about group dynamics or about how autism may affect social skills, or being a record keeper at community association meetings to learn about governance and leadership. At the college and university level, more institutions are incorporating community service learning assignment options, community-service graduation requirements, or co-curricular transcripts that list community service activities.

Summary and Conclusion

In this analysis, we have assumed – as so many do – that formal volunteering through organizations is a good thing in society. This normative judgment is something we ask readers to reflect on. Think about what makes it easy for some people to volunteer and what hinders others. Does having resources of human capital and social capital promote volunteering? Yes: research is very clear on this. If volunteering has benefits in the labour market (for both getting jobs and getting *better* jobs), as well as for health and well-being, then those left out of the formal volunteering space because of the lack of human and social capital are disadvantaged. In this age of rising inequality, should we ensure that policies promoting volunteering include opportunities for marginalized groups? And if so, what should these policies be? How would such policies affect nonprofits that seek skilled volunteers to promote their missions? How would such policies affect individuals, who may view such interventions as coercive or exploitative, forcing them to give up their time for others? Such questions are difficult to answer, but if we agree that a high rate of formal volunteering is a sign of a healthy society, they cannot be ignored.

The scholarship we have briefly reviewed has raised interesting questions on what we consider to be formal volunteering. Perhaps it is time to reconsider our definitions in a world where technology has allowed many new ways for people to choose how they can help others. Traditional forms of volunteering have given way to new kinds of volunteering that can happen through workplaces or educational institutions, can take place virtually or face to face, and can last from very short to very long time periods. Furthermore, helping others may not involve organizations at all. Does such "informal" volunteering promote similar benefits to "formal" volunteering? And who is more likely to engage in informal volunteering, and why? Are the motivations underlying both sets of volunteering similar? If not, what are the implications in the promotion of one over the other at both the individual and the policy level?

Among Canadians there are distinct profiles of volunteers that reflect where they are in their life cycles. Students and retirees volunteer but are very different in what they choose to do and in the costs and benefits they experience when they volunteer. While there is much written about mandatory community service vis-à-vis students and the benefits of such "enforced" volunteering, longer-term effects on these students now entering adulthood still need to be documented and analyzed. Similarly, there is much written on older adults who retire out of paid employment into retirement but much less about those who must face retirement out of volunteering. If there are increasing benefits to volunteering, what happens when they must quit volunteering? Other groups of people who may also benefit from volunteering need to be studied, and although there is some scholarship on this, further studies need to document the experiences of newcomers to Canada, those who are other-abled, those living in poverty, and others in the volunteering space.

If public policy is to promote volunteering among all Canadians, regardless of where they live and their socioeconomic status, then we need to gather better data and reflect on both the good and the bad of volunteering, and not take it for granted by blindly promoting all volunteering. What volunteers bring to the table often depends on the organization where they are engaged and on volunteer management practices. Good volunteer management has a great impact on an organization's mission, as seen in the study of hospitals in Ontario, where volunteers contributed millions of dollars (Handy & Srinivasan, 2004). Moreover, CEOs of hospitals, when asked if they would replace their volunteers if given enough money to hire paid labour to do volunteers' tasks, resoundingly said no (Handy & Srinivasan, 2005). Nevertheless, volunteer management practices should be scrutinized to ensure that volunteers do not feel exploited or coerced and that paid staff who work alongside volunteers do not feel that unpaid labour might threaten their employment status,[6] regardless of whether volunteers are considered to be employees under the law and the protection offered to them.

Volunteer management can be ad hoc in smaller organizations, but in larger organizations, such practices cannot be downplayed because volunteers are not paid. Nevertheless, human resource management in larger organizations is focused primarily on paid labour and much less so on volunteers. Arguably, managing volunteers is more difficult, as they can simply quit if they are unhappy, and without much cost. Hence, recruiting and retaining volunteers takes significant skill and planning. Furthermore, as volunteers come in for a few hours a week or month and vary in the skills they bring, it may take more resources to train and manage volunteers than paid employees; this makes the management of volunteers challenging and non-trivial. Not to be downplayed is the importance of ensuring that nonprofits' paid staff and volunteers complement each other in their roles, rather than being seen as interchangeable.

Another important function of volunteers in organizations is their role in governance. Canadian nonprofits are by law governed by boards of directors who are themselves volunteers: one in three Canadian volunteers hold positions on boards and committees (Statistics Canada, 2009). The common-law and legislative duties of directors require them to act as fiduciaries and in good faith in the best interests of the organization and exercise care, diligence, and skill, thus placing a heavy burden on the volunteers undertaking this role. Given that the governing function of the board must be separated from the management function, and all nonprofits are subject to a non-distribution constraint, ensuring that surpluses are spent on the mission, governance volunteers perform an important task of ensuring that a nonprofit is meeting its mission in the best possible way. Thus, volunteers on boards of nonprofits assume a key role in the nonprofit sector. Their skills, talents, and efforts shape, to a large extent, Canadian civil society as we know it.

In this respect, the answer to an earlier question we posed – whether formal volunteering is a sign of a healthy society – is yes, especially considering the role of volunteers on boards (and committees) of charities and nonprofits. This raises another question: who are the volunteers who serve on boards? This is generally seen as a prestigious job, often awarded to the elite in society – certainly the case for large nonprofits (such as universities, art museums, hospitals, etc.). There are arguments for such appointments, as members of boards are often required not only to give of their time and talent, but also to donate generously to the nonprofit and fundraise among their networks. Their elite reputation also often acts as collateral in enhancing the trustworthiness of their nonprofit.[7]

Undoubtedly, in promoting a public policy of encouraging volunteers, many issues arise from the heterogeneity of volunteering. Hence it is impossible, even with the breadth that we have covered, to ensure that all the various questions that may arise in designing public policy have been fully engaged. The ways of volunteering and engaging individuals are limited only by the human imagination and rapid development of technology, and we expect that in the next couple of decades, volunteering, as we write about it now, will have undergone big changes.

So, we end by raising a few questions for you the reader to consider. We believe these are fundamental questions that require public debate, that will in turn lead to more effective policy related to volunteering. As with any policy, it comes with a price tag: its opportunity cost – that is, what else might we do with those resources? Hence, we need to be clear about the benefits and challenges that might arise if we choose to promote volunteering. In this vein, we ask the reader to consider, among those already raised, the following 10 questions. We intentionally do not provide answers to these questions, as there are no right and wrong answers, but we want to encourage readers to discuss them with their peers and engage in a productive public debate as volunteering in Canada moves forward.

1. How would Canadian nonprofits function without volunteers providing services, sitting on boards, et cetera?
2. What would Canada look like if formal volunteering as we know it now disappeared?
3. Should we actively incentivize the giving of time like we do the giving of money? What might be the downside? Should employers give their employees incentives to volunteer?
4. What is the line between giving individuals an opportunity to gain experience and the expectation that they provide unpaid labour in return? Would it be different with paid internships in the for-profit and nonprofit sectors?
5. If you were to write a protocol to guide the relationship between volunteering and paid labour, what would it include? How would we put a value on a volunteer's time, if it is unpaid? What is the cost to the organization of using volunteers? What are the net benefits to the organization?
6. Who should nonprofits appoint to their boards of trustees? Why does it matter who sits on volunteer boards?
7. How do the roles of an individual as a formal and informal volunteer add to building a healthy Canada? Is one more privileged than the other?
8. How will technology change the distinction between formal and informal volunteering?
9. Will promoting volunteering in Canada increase inequality or decrease it? Will changes in technology help more or fewer people to participate?
10. What policies should we put in place so that all segments of the population can participate in volunteering? Is volunteering to be considered an entitlement?

Appendix A

Activities: Reflecting on Chapter Themes

This chapter provided an overview of volunteering in Canada, including current trends and future directions for research, policy, and practice. Two overarching themes of the chapter are the way in which volunteering is defined and the role that volunteering plays in the lives of individuals and society as a whole. These two themes are related, as our definitions of volunteering reflect our understanding and preferences for when, why, and how individuals and groups should volunteer – as well as our expectations about who should volunteer, and who "counts" as a volunteer. These factors play a significant part in shaping research questions, organizational practices, and policy agendas around volunteering in Canada and elsewhere, which in turn influence the volunteer experience. In other words, how we think, talk, and learn about volunteering as a phenomenon has real-life implications.

Whether you are a student or instructor of nonprofit and voluntary studies, a volunteer administrator or nonprofit practitioner, or just someone with an interest in volunteering and the Canadian nonprofit sector, this section is designed to help you reflect on the chapter themes and think more deeply about the topics and questions raised throughout the chapter. We offer some guidance, but we encourage you to bring your own knowledge, viewpoints, and critiques to each activity.

Activity 1: Defining Volunteering

Review the following examples of the tasks and motivations for community involvement. Based on the definitions offered in the chapter, comment on each one as to whether or not you consider it volunteering, mandatory community service, pro-bono service, or something else:[8]

- High school graduation requirement of 40 hours of community involvement
- 50 hours of volunteering in order to apply for a college program in social services
- 17 hours of community service in order to receive social assistance benefits
- Volunteering in a school to improve your chances of being accepted into its faculty of education
- Volunteering to write articles for a non-profit organization's newsletter to build your portfolio for a future job search in communications
- Volunteering in a food bank to get a character reference for a job
- Volunteering in a drop-in centre, while you are unemployed, to have something on your resumé corresponding to that period
- Volunteering in a shelter to make a case to a sentencing judge for a lenient sentence, after being convicted of a crime
- A lawyer writing the bylaws for an organization and not charging a fee
- A marketing company giving an organization a discount on its services
- A newcomer volunteering to improve their English or French
- A stay-at-home parent volunteering to transition back into the paid labour force
- A person with a limited social network volunteering to increase their contact with others
- A person whose family received support from a hospice who volunteers to give back
- A person who has received a large buy-out package from a down-sizing high-tech firm who volunteers as a way of networking to start their own consulting firm

Activity 2: Types of Volunteering

The chapter talks about new trends in volunteering. Technological advances, globalization and policy shifts, and even the changing nature of work all contribute to when, how, and why people volunteer. Previous definitions of volunteering may no longer be sufficient to capture the range and nuance of volunteering as a phenomenon. But why is this important? First, from an administrative standpoint, it is important to recognize volunteering in its many forms to make the best use of human resources – that is, the available time and talents of each volunteer – and to think of new and creative ways that volunteers can be involved in the organization's activities and mission. Second, from a policy and research standpoint, an expanded definition of volunteering allows us to acknowledge the many ways in which individuals get involved in their communities, to examine systems of power that often act as barriers to involvement for certain groups, and to critique our commitment to volunteering as a positive form of civic engagement. Thus, reflecting on the various types of volunteering can help us to understand the micro, meso, and macro factors at play in influencing the past, present, and future trends in volunteering.

For this exercise, think of an activity that fits within each of the volunteer types described above:

ongoing or long-term volunteering, employer-supported volunteering, skills-based volunteering, pro-bono services, micro-volunteering, virtual volunteering, episodic volunteering, short-term volunteering, surge volunteering, individual social responsibility, and informal volunteering/helping.

Activity 3: Viewpoints on Volunteering

As we have discussed throughout the chapter, volunteering usually evokes a positive response, with both policy-makers and researchers touting its numerous potential benefits for society and individuals. However, we have also touched on some of the ways in which volunteering can be controversial. For example, we have talked about whether volunteering can become coercive or exploitative for certain groups such as youth and immigrants. We have also talked about the tension that can sometimes arise between paid staff and volunteers. The following activity is a role-playing exercise designed to get you thinking more about these issues and can be used in a classroom or professional workshop setting. It can also be used as a starting point for thinking critically about the different views and perspectives of certain groups and individuals on volunteering and its place in the community.

Scenario

A nonprofit community centre functions as a site for numerous educational services and activities, which are provided free or at subsidized rates, including after-school programming for elementary and middle-school children, early preschool education, and adult education classes, including English and French language instruction for new immigrants and basic computer instruction for adults of all ages. Last year, they launched a peer mentoring program to pair community members with individuals looking to improve or obtain employment opportunities. The program has been well attended and received a lot of positive feedback from both clients and volunteer mentors. Historically, the community centre has employed professional staff to implement and facilitate programs, including training and oversight for volunteers. Some of these employees belong to a local teachers' union. Up until now, the majority of volunteers have worked in the mentoring program, with some parents volunteering for special events and activities related to after-school and preschool programming on an episodic basis and a few other professionals offering pro-bono expertise in the adult education programs.

However, the executive director is facing a dilemma with this year's budget: a grant the centre has received for the past 10 years through a private foundation is no longer available, leading to a significant shortfall in the budget. The board of directors, which is made up of diverse and prominent community members, has tasked the executive director with finding ways to avoid cutting programming at all costs. In looking at operating costs, the executive director notices that they spend more money on personnel costs than other community centres doing comparable work at a comparable scale in other parts of Canada. Thus, the executive director suggests laying off several paid staff and replacing them with volunteers. The executive director cites a prominent nearby university and several local high schools, with community service requirements, as possible sources of new volunteers. One of the board members, who immigrated to Canada 15 years earlier and who participated in language and professional development classes at the centre, suggests that immigrants might welcome opportunities to be more involved at the centre as volunteers.

With these ideas in mind, the board and executive director prepare a new strategic plan and announce the changes in a memo to staff and other stakeholders. Recognizing that the proposed changes will incite backlash, the board decides to invite the various stakeholders to a special open-door meeting to help them decide how to proceed and, hopefully, to deescalate any tensions. They give each group the opportunity to share their opinions on the situation. Each group speaks for five minutes about how the proposed changes will affect them and concludes with recommendations for how the organization should proceed.

Stakeholders/Roles

- Executive director
- Board of directors
- Paid staff
- Immigrants
- Students
- Clients
- Representative(s) of Local 32 teachers' union

Questions to Consider

1. Prepare a five-minute presentation to share your assigned role's perspectives on this scenario. Explain why you are for or against, or neutral toward, the proposed changes.
2. If you are working individually, consider how each of these stakeholders would respond to this situation. What are the pros and cons for each group?
3. What is the relationship between volunteers and paid staff at this organization? How will the proposed changes affect this relationship going forward? Will the changes strengthen or weaken the organization in the long run?

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Notes

[1] Value of Volunteering Wheel (2018).

[2] Environics Institute (2017). Canadian Millennials Social Values Study

[3] The Canadian Code for Employer-Supported Volunteering is published by Volunteer Canada and available at https://volunteer.ca/code-esv

[4] For a comprehensive overview of evidence for the link between volunteering and well-being, see Siegel and Pilliavin (2015). For a meta-analysis of the benefits of volunteering in older age, see Wheeler, Gorey, and Greenblatt (1998).

[5] A "vulnerable person" is defined in the Canadian Criminal Records Act as "Persons who, because of age, a disability, or other circumstances, whether temporary or permanent, are in a position of dependence on others or; otherwise at greater risk than the general population of being harmed by a person in a position of authority or trust relative to them."

[6] Studies on Canadian nonprofits found there is a two-way street on the interchangeability of paid and volunteer labour, where volunteers did tasks often undertaken by paid staff and vice versa (Handy, Mook, & Quarter, 2008).

[7] Prince Philip, a volunteer board member of World Wildlife Fund, endorses WWF by providing his reputation as collateral. "Prince Philip has too much to lose by being associated with a shady organization." Thus, volunteers as trustees passively legitimize their nonprofits (Handy, 1996: 294).

[8] This exercise is based on an activity that was part of a workshop called Defining Volunteering hosted by Volunteer Ottawa in 2001, then revised in 2015 for the Master's of Philanthropy and Nonprofit Leadership program.

Biography

Allison Russell, University of Pennsylvania

Allison R. Russell is a post-doctoral fellow at the Center for Social Impact Strategy at the University of Pennsylvania. Allison's research and teaching centre on the nonprofit and voluntary sector, including volunteerism, nonprofit HRM, ethics and equity in organizational decision-making, and the role of nonprofits in social welfare in the US and around the world. She holds a PhD in social welfare from the University of Pennsylvania School of Social Policy and Practice.

Paula Speevak, Volunteer Canada

Paula Speevak serves as president and CEO of Volunteer Canada and is an adjunct professor at Carleton University in the School of Public Policy and Administration. Powered by passion and facilitated by local volunteer centres, she sees the evolving nature of volunteering as a vehicle for inclusion, social justice, skills development, and community resiliency.

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Dr. Femida Handy is a professor at the School of Social Policy and Practice at the University of Pennsylvania, where she serves as director of the PhD program. She has previously served as the editor-in-chief for *Nonprofit and Voluntary Sector Quarterly.* Femida is widely published and has received multiple awards for her research, which is crosscultural and interdisciplinary. Her research interests include a wide range of topics focusing on the nonprofit sector, such as philanthropy, volunteering, managing nonprofits, and environmental issues.

Part III Innovation and Intersections

Community and Corporate Intersections

Intersections with Governments: Services and Policy Engagement

Measuring Impact and Communicating Success

The Muttart Foundation

Community and Corporate Intersections

Chapter 21

Social Innovation and the Nonprofit and Voluntary Sector in Canada

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Social innovation has become a core concept in contemporary discourse and a global phenomenon that is shaping the behaviour of nonprofits, governments, and for-profits. Through social innovation, citizens – whether as individuals or organized in groups – can create new opportunities that respond to societal needs. As a result of its popularity, the concept of social innovation has become somewhat vague due to differing interpretations, and the high expectations of funders and the public about what nonprofits can accomplish through social innovation are sometimes overinflated.

This chapter seeks to give more rigour to the meaning of the concept and analysis of the potential, and limitations, of social innovation in practice, with a focus on the Canadian context. The first section provides an overview of definitions of social innovation, drawing from academic literature and highlighting some examples of what a social innovation might be. The second section discusses the political-economic context that has contributed to the increasing engagement in social innovation by nonprofits, along with the growing institutionalization of social innovation as a process for social welfare development. The third section introduces key conditions that support the development and implementation of socially innovative efforts by nonprofits, along with some of the challenges they might experience in undertaking socially innovative efforts. Concluding remarks highlight the important role of leadership in the nonprofit sector to identify areas of social improvement and to carry out new efforts to improve the social well-being of Canadians.

Social Innovation – What Is It?

Social innovation as an applied concept is relatively new but has old roots. Indeed, for centuries, our contemporary understanding of the concept has been a common theme among academic writers and philosophers, including Karl Marx and Émile Durkheim, who theorized about wider social change. Social innovation is fundamentally about social change in a positive direction that sees the improvement of human social well-being. Likewise, from a practice perspective, historically we have witnessed citizens taking an active role in improving the social conditions of various social groups through social welfare efforts and community economic development. Before turning to some examples, I explore in more depth what social innovation means conceptually.

A Basic Definition

The definition and conceptualization of social innovation have become clearer and more consistent in recent years. While the specific language of the various definitions may differ, there are several common characteristics across them. First, socially innovative efforts provide *new* solutions to social problems (Phillis, Deiglmeier, & Miller, 2008). Second, in addition to simply being a new idea or approach, social innovation is designed to *improve people's "macro quality of life"* – the broad range of social impacts or outcomes that nonprofits aim to achieve (Pol & Ville, 2009); it creates a social value for society, in contrast to a benefit for individuals (Murray, Caulier-Grice, & Mulgan, 2010). It may meet the social needs within a population by increasing the available set of valuable options to people (Pol & Ville, 2009) or by creating opportunities for partnerships and other social relationships (Murray, Caulier-Grice, & Mulgan, 2010). A third element is that social innovation efforts are *purposive* and are understood as drivers of institutional change based on new ideas (Hamalainen & Heiscala, 2007). On a conceptual level, then, there is consensus that social innovation refers to a new social intervention (whether new in a specific place or new altogether) that seeks to improve the social conditions within society. The term "social intervention" should be understood in the most general of ways so that it is inclusive of the range of different intervention efforts that might be possible within different institutions (nonprofit, government, and for-profit alike). Below I discuss the degree of impact that a new socially innovative intervention might have, which could vary depending on where the social innovation is implemented and the stage of development and diffusion within the social system.

To make this more concrete, Shier and Handy (2015) have illustrated how these conceptualizations might be applied to the work of human service nonprofits. As an example, consider people experiencing housing loss. When thinking about the social situation of housing loss, the goal of nonprofits' efforts generally is to reduce the number of days of homelessness experienced by people. We know that housing loss is experienced in two general ways: either episodically or chronically. Those who are episodically homeless will experience housing loss that lasts for a period of time, but under 12 months. We can calculate the average number of days of housing loss experienced by those who are episodically homeless in any shelter in Canada. These averages could then be summed across all shelters and averaged to get an assessment of the average number of days of loss before being rehoused among people who experience housing loss in all of Canada. The overarching social goal to support individuals who experience housing loss in Canada would be to create a situation where the average number of days of homelessness was zero, or alternatively, a single day, or to get as close to this as possible. That is, when someone experiences a disruption in housing, they are immediately rehoused. However, in Canada, we are not close to that intended goal, and as a result, people experience episodic homelessness for weeks and even months at a time.

Social innovations could be developed that help to reduce the number of days between loss of housing and permanent rehousing. These social innovations might be informed by an understanding of the range of pathways that lead to housing loss. For instance, I have encountered homeless shelter organizations that have addressed barriers to employment by engaging directly with employers to support labour-market attachment. Others have created integrated service networks that support access to necessary health and concurrent disorder programs that address some underlying barriers and challenges for people experiencing housing loss, with the intended goal of supporting quicker rehousing.

For the other group of people experiencing housing loss for more than 12 months, perhaps years – the chronically homeless – we have seen nonprofits adopt the Housing First model throughout Canada (in Calgary, Winnipeg, and Ottawa, among other cities), now aided by the federal government's national homelessness program – Reaching Home: Canada's Homelessness Strategy – as a social innovation that seeks to provide long-term housing, rather than temporary shelters. Housing First models work on the premise that people experiencing chronic homelessness (or those at an increased risk to become chronically homeless due to mental and physical illness), long-term difficulties with labour-market attachment, or substance misuse behaviours require housing at the outset of intervention with access to a range of intersecting supports that contribute positively to their ongoing experience.

The potential, and need, for social innovation arises in any social situation that requires some intervention to make things more equitable or to minimize experiences of vulnerability among particular groups. For example, young adult un- and under-employment has been a persistent social issue in Canada for decades. However, shifts in our labour market have resulted in increasing rates of precarious employment (i.e. part-time and temporary), leading to reductions in meaningful work opportunities for this age cohort and contributing to poor labour-market outcomes. A socially innovative effort to address this persistent social issue is the creation of new social welfare programming that helps young adults transition from lower-skill and lower-pay employment to higher-skill and higher-pay employment through opportunities that make direct connections with labour-market demands. Examples of this type of effort include nonprofits like Pathways to Education, which works to reduce high school drop-out rates, and Canada Learning Code, which supports the development of skills within Canada's technology sector. These social innovations are distinct from previous or current efforts that have emphasized skills, such as resumé writing and performing in an interview, which have generally not reduced the rates of young adult un- and under-employment in Canada. These newer programs attempt to link human capital development with labour market demands, creating opportunities for young adults to transition to full-time and more meaningful work at an earlier age and subsequently enhancing their long-term labour market participation.

Like young adults, disabled people have also experienced social and economic barriers to meaningful work, including high rates of discrimination when seeking employment in the private sector. A long-standing practice of social innovation in Canada (beginning before it was referred to as social innovation) has been the creation of "work integration social enterprises" (WISEs) that provide opportunities for disabled people to participate in meaningful ways in the labour market. The WISE approach is distinct from previous efforts, which have mainly relied on for-profit employers or day programs in the form of "sheltered workshops" where individuals are socially excluded from the labour market. Instead, a WISE model intentionally creates spaces of productive economic activity, being paid and working alongside experienced employees in enterprises operating in the market.

The number of social problems are endless, but so too are their possible solutions. It is within this process of identifying and implementing solutions to broader social problems that social innovation emerges.

Place and Risk in Social Innovation

The empirical and conceptual literature continues to evolve so as to provide greater specificity of what makes something a social innovation. For instance, some have highlighted local impacts in solving persistent or emerging social issues or problems; they stress the processes involved in implementation. One dimension, albeit somewhat controversial, is the extent to which social innovation is rooted in place or locale. For example, Alvord, Brown, and Letts (2004) differentiate social innovations by the extent to which they build *local* capacities to solve problems, support *local* movements, and provide "packages" of resources to specific marginalized populations. Another approach, advanced by Cnaan and Vinokur-Kaplan (2015), is to examine more closely the focus, beneficiaries, and agents of social innovation. They develop a model that considers the focus of the innovation, who benefits, who carries out the work, and the magnitude of the innovative effort involved. In their model, a social innovation might include supporting individuals who were previously excluded from an existing service or the application of an innovative intervention that has not been used before. Within this typology, another key aspect of social innovation emerges: it can be incremental in nature, although "incremental" is a matter of perception of scale or degree of impact. Some empirical literature might highlight substantial, comprehensive social-change efforts (such as micro-finance, which has been found to significantly reduce rates of poverty in economically underdeveloped nations and regions) as social innovation; however, the impact of these efforts is witnessed over many years and is rooted in more incremental, tangible efforts that have been localized. It is the sum of the efforts, each incremental in nature, over a substantial period that produces major, long-term social impacts.

Certainly, the goal of social innovation is to maximize social impact (or continue to strive toward this), which may involve differing degrees of "newness" and risk, ranging from the never-tried-before inventions to diffusion of existing innovations. Social entrepreneurs have come to be regarded as central to creating new initiatives that respond to social issues in new ways, although the notion of who is a social entrepreneur is often ill-defined. And such "out-of-the-box" entrepreneurial types may well be located in a charity or nonprofit, rather than leading a "social enterprise" or social purpose business. In some cases, these individuals and their organizations might need to be "trailblazing," creating a good or service before its viability and profitability is evident (Bannick & Goldman, 2012: 9). In more developed markets, nonprofits may be able to scale existing innovations by diffusing models that have been de-risked, thereby having a greater social impact, quicker (Phillips & Johnson, 2019). Although the initial effort was novel, its application might be incremental, but as it is adopted by others, this leads to other fruitful areas of social innovation that amplify the social impact or improvement in macro-quality of life of various social groups. This highlights the need for an ongoing process of social innovation within and across social and economic sectors.

An example might help to clarify. From the previous discussion on efforts to reduce the average number of days of housing loss, a single shelter might implement a new employment-support program that increases the rate of employment among people who experience episodic homelessness because of loss of stable employment. Quicker re-employment would also lead to quicker permanent re-housing, subsequently reducing the average number of days of housing loss experienced by those individuals who access this one shelter. The incremental social impact of this effort might be quite small; for example, if only one shelter implements the new program, and they support only 25% of clients who experience episodic homelessness, the impact of the effort might be a reduction of only half a day on average. Then, when scaled up as the shelter increases in size, or the effort is diffused to other shelters across a province or even the entire country, the average reduction in days of housing loss becomes quite significant. Not to mention, there may be other new social interventions occurring at the same time within a city, a province, or in the country that reduce the average number of days of housing loss experienced. The totality of these various efforts has the potential to create meaningful impacts.

Types of Social Innovation

Building from this understanding of the incremental nature of social innovation, and the experiences of nonprofit organizations in Canada, Shier and Handy (2015) have operationalized these simultaneous or co-occurring efforts to identify three types of social innovation: a) socially transformative, b) product-based, and c) process-based. This operationalization of social innovation is aligned with that proposed by Pitt-Catsouphes and Berzin (2015) and further adapted by Berzin and Camarena (2018), which focus on efforts that a) shape mindsets about social issues (i.e. social transformations), b) lead to the creation of new programs (i.e. products), and (c) adapt to existing organizational structures (i.e. processes).

Socially transformative innovations are those efforts that nonprofits might undertake to directly change the political or cultural landscape, such as through political advocacy or public awareness initiatives. Recently in Canada, three predominant movements have aimed to address persistent and emergent social issues, and where we have seen this type of socially innovative effort. First, the broad, sweeping political advocacy and public awareness initiatives about mental illness aim to eliminate the stigma associated with mental health service use and disclosure. By challenging public perceptions about mental illness, these initiatives have allowed people to disclose to employers and seek treatment and other supports, subsequently contributing to broader social impacts associated with employment, housing, and family functioning. The second is the persistent social issue of gender-based violence. Through mass public awareness efforts focused on gender-based violence within employment and education sectors, along with social settings and families, these efforts challenge widely held assumptions about gender and mobilize actions at individual and systemic levels to change behaviours. Finally, in recent years, much of North America (including Canada) has witnessed increased deaths associated with the use of non-prescription opioids such as fentanyl. A significant barrier to providing socially innovative, preventative approaches – such as harm-reduction programs, making naloxone kits readily available, or implementing safe injection sites – is the general public perception about recreational drug use and substance misuse. Developing socially transformative innovations, by way of shifting public perceptions, could have a positive impact on harm-reduction efforts and reduce deaths due to overdose.

The second type of innovation is *product-based*. A prevalent form of social innovation by nonprofits (Shier & Handy, 2015), it includes the development of new organizations, programs, and methods of support that aim to improve the social outcomes of vulnerable groups. There are many examples, such as the efforts to reduce barriers to labour markets for marginally employed or unemployed groups that I described previously.

Finally, process-based social innovations include adaptations to organizational procedures and processes that improve outcomes for general social groups when accessing services. Examples of these types of social innovation are also abundant. A long-standing criticism of service delivery organizations is their tendency to work in "silos," which hinders their effectiveness and limits the impact of their efforts. Nonprofits working on intersecting social issues might form partnerships to provide more integrated and seamless service delivery for "clients." Many organizations within and across sectors are partnering more because they've realized they can have a greater impact when working together to address the root social and economic causes of marginalization and vulnerability experienced by general social groups.

Why Social Innovation, and Why Nonprofits?

While the term "social innovation" – and its popularity – is relatively recent, nonprofits (or their equivalent form, depending on the era) have a long history of being socially innovative for the purpose of social welfare development (Abel, 1979; Emery & Emery, 1999; Graham, 1992, 1996; Graham, Shier, & Delaney, 2018; Matters, 1979; Splane, 1965). As an example, take supports for older adults. The history of social innovation for this social group has evolved over the last 300 years. During the 1700s and 1800s, publicly operated poorhouses were the standard place of residence offered for older adults who were unable to work or take care of their own needs (Tobin, 2003). Characteristic of these institutional settings were extreme poverty and squalor-type living conditions. As a corrective, in the 1800s religiously orientated charities began developing private boarding houses for older adults. Following this, the development of institutionalized nursing homes for older adults began with the efforts of local communities and developed into an expansive system of long-term care that is motivated by both profit and the goal of meeting this group's social welfare needs (Cohen, 1974). In recent years, community-based nonprofits have been influential in creating new methods of long-term-care service delivery, addressing people's growing desire to age in place (Austin, Descamp, Flux, McClelland, & Siepert, 2005; Lehning & Austin, 2011).

Take also the case for people experiencing serious mental illness or developmental delay. Throughout the first half of the 1900s, many people with serious mental illness and developmental delays resided in state-run psychiatric institutions, mostly because of public stigmatization and the medicalization of disability, along with inadequate infrastructure and resources to provide supports in the community. But beginning in the 1940s through to the 1970s, a process of deinstitutionalization began, in part because of transformations in public perceptions about support and social inclusion for this social group. Supports for people with serious mental illness (i.e. product-based social innovations), such as the clubhouse model (Beard, Propst, & Malamud, 1982; Dincin, 1975), began to emerge within civil society in the 1940s. Beginning with these early self-advocate movements (aided and supported by professional helping groups, such as social workers), community-based mental health services developed into the dominant model of service delivery. Later, a different movement began of people who were developmentally delayed and were affected by deinstitutionalization. Starting in the late 1960s and into the early 1970s, people with developmental disabilities joined together with physically disabled people in the independent living movement, a movement sparked on university campuses and within the field of rehabilitation professionals (Williams, 1983). Through direct advocacy-based work (i.e. socially transformative innovations) and the creation of new community-based organizations (i.e. product-based social innovations), these nonprofits became the first places where issues of exclusion and lack of support for developmentally delayed adults were addressed.

A third example is the emergence of supports and community responses to the HIV/AIDS epidemic of the 1980s. Social support and health-related services for those impacted by HIV/AIDS were largely absent in our social welfare system. There are also several notable examples of HIV/AIDS service organizations emerging during this period that created a new service infrastructure (Poindexter, 2002; Sowell & Grier, 1995). The efforts of these grassroots organizations in addressing the negative stereotypes and the need for HIV/AIDS-related support services created an institutionalized set of services for people living with HIV/AIDS.

Each of these cases is an example, from different periods, of social innovation by nonprofits and other civil society actors that led to fundamental changes in the social welfare system. In fact, most new or reformed social welfare development has been created through similar methods: from housing loss, to supports for incarcerated people, to domestic violence shelters, to efforts to support sexual and gender diversity and those at risk of overdose-related death, among many others. Social innovation has been at the root of all these important areas of social welfare development through incremental efforts that have scaled or diffused and transformed public attitudes and social welfare policy regimes.

So if social innovation led by civil society organizations has always been the case in social welfare reforms, why has it emerged as such a predominant concept in recent years? And why the expectation that nonprofits will lead social innovation? This question needs to be addressed in the context of the important shifts that have occurred in the roles and responsibilities of the public, nonprofit, and private sectors for social welfare development over the past four decades (Balassiano & Chandler, 2010; Banting & Myles, 2013; Gonzales, 2007; Jenson & Phillips, 1996; Jordan, 2008; Mulvale, 2001). These transformations have been defined predominantly by the decentralization and privatization of social welfare benefits that characterized the traditional social welfare era of the 20th century. Beginning in the late 1980s under neo-liberal policies, contemporary social welfare evolved into a "shared" effort between government, the for-profit sector, and the nonprofit sector (as well as individuals and families), albeit in an intentionally competitive marketplace (Banting & Myles, 2013; Evans & Wellstead, 2014; Graham, Shier, & Delaney, 2018; Jenson & Saint-Martin, 2003; Jetté & Vaillancourt, 2011; Phillips, 2012;

Powell, 2007; Vaillancourt & Tremblay, 2002). An important idea in the philosophy of "new public management" (NPM) that accompanied neo-liberalism was that governments should "steer, not row" – that is, they should set general direction but leave the specifics of how to deliver programs to the nonprofits or for-profits responsible, or potentially privatize service delivery entirely (Osborne & Gaebler, 1992). In addition, the federal government began to favour providing supports through the tax system, rather than subsidizing service provision, on the basis that this enabled greater consumer choice (Banting & Myles, 2013). Given that social services, health, and education are provincial responsibilities, and the provinces took differing approaches to the reform of these services, the delivery of human services in Canada became particularly fragmented and uncoordinated. If social innovation was to occur in this environment, the assumption was that it would be mainly product-based and needed to come from the service-delivery agents.

As the hold of NPM waned in the early 2000s, and the problems produced by the fragmented market-oriented delivery system mounted, the emphasis in public management turned to more explicit forms of cross-sector collaboration, often referred to as "new public governance" (Aucoin, Lewis, & Surrender, 2004). The degree of actual collaboration arguably never matched the rhetoric of the time, but experiments in greater coordination within and across governments – that is, various forms of process innovation – were undertaken.

As social and environmental problems grew and as they were increasingly seen as complex systems, the interest in more transformative innovation also grew. Nonprofits, particularly "enterprising" ones, were seen as less constrained than governments in taking risks and more attuned to and engaged with their constituencies, and thus held the potential to develop new thinking and new ways of doing things. Social innovation as an end in itself gained momentum, as it had in Europe and the US. MaRS, a nonprofit corporation intended to assist with commercialization of new products and incubate start-ups, was created in Toronto in 2000 and became a focal point for all kinds of innovation; the Tides Foundation, which supports social change initiatives, was launched in Canada in 2000; from 2000 to 2002, the Voluntary Sector Initiative, a collaboration between the federal government and the sector, sought to redefine the relationship between the two; various think tanks, such as the Canadian Policy Research Networks (CPRN) and the Caledon Institute (both now closed), led influential research on social policy reform and innovation that stressed the important role of nonprofits (Goldberg, 2004); the J. W. McConnell Family Foundation funded the University of Waterloo–based Social Innovation Generation (SIG) in 2007 that aimed to create new thinking and a new generation of leadership for social innovation; and new models of social finance emerged, particularly out of Quebec and financial institutions such as Vancity (Goldberg et al., 2009; see Chapter 14 by Harji & Hebb).

The language had been adopted of systems change and, with the impact of new technologies, of "disruption" to these systems, working across sectors to achieve "collective impact" and shared measurement (see Chapter 33 by Ruff). The next phase for social innovation on a national scale was initiated in 2019 with the Government of Canada's creation of the Social Innovation and Finance Strategy, backed by $805 million over 10 years (see Chapter 14 by Harji & Hebb). While the strategy is still unfolding, it signals the need to support social innovation with resources and to create capacity by nonprofits to use these new forms of financing. The strategy has also raised expectations for social innovation, perhaps unrealistically so. In addition, provincial and municipal governments have established frameworks that aim to support social enterprise development, which might be considered as efforts to institutionalize a blended for-profit and nonprofit environment to enhance societal well-being and create more opportunities to initiate social innovations through market-based revenue generation.

Creating the Conditions for Social Innovation

Given the increasing institutionalization of social innovation as a model for social welfare development in Canada, as elsewhere, it is imperative for this environment to create opportunities for social innovation to flourish. What are these requisite conditions? Broadly speaking, the research points to the importance of engagement in partnerships among nonprofits and across sectors to better share resources and enable decision-making across sectors on matters of general public concern (Shier & Handy, 2016a, 2016b). Likewise, leadership within an organization and internal organizational dynamics (such as characteristics of the organizational culture or environment and engagement with stakeholders) are key factors. Most of the conditions can be created with the right focus on leadership training and education – by funding leadership initiatives within nonprofits, creating opportunities to work more collectively, reducing competition, and increasing incentives to engage in partnerships within and across sectors.

While these conditions in Canada have not been fully implemented, we have witnessed some efforts to support the fiscal needs of social innovation, such as the creation of social-financing strategies and opportunities (including the new Social Finance Fund), through government frameworks that support social enterprise development, the uptake among foundations to fund socially innovative efforts, and the emergence of networks and collectives around social innovation (including innovation hubs and incubators). However, many of these efforts remain underdeveloped or are sparsely distributed across Canada. In addition, traditional government contracting arrangements – which as standardized contracts put a strong emphasis on financial accountability and often pre-specify inputs, activities, and deliverables in quite rigid terms – place significant limitations on organizations to be innovative. More needs to be done. To achieve more, the following challenges need to be addressed:

- The public policy environment does not support shared decision-making by nonprofit leaders. Greater efforts could be made to support a stronger partnership between governments and nonprofits. Further research could investigate how this might come about.
- Financing is important. Without stable social-financing arrangements, nonprofits are limited in their ability to try new things. While there appears to be increasing interest in social finance in Canada (through social investment strategies or social impact bonds, or the creation of social enterprises), there have been minimal interventions from government to support these efforts. It is yet to be determined how impactful (or sustained) the proposed Social Finance Fund will be.
- Current education and leadership training programs inadequately prepare nonprofit leaders with an orientation toward social innovation. Human services and nonprofit management training remains predominantly focused on teaching people how to

run an organization to meet government-mandated programming needs, without an entrepreneurial orientation or an understanding of one's role as a social welfare leader. Education programs need to evolve to effectively train the next generation of nonprofit leaders. There have been advances, of course, but the scope is limited, with only a few programs spaced out throughout the country.

- Because of the emergence of venture philanthropy and corporate social responsibility (typically characterized as "one off" efforts that don't necessarily support the incremental nature of social innovation), limitations are placed on what efforts get focused on, and the ability for those meaningful efforts to be scaled up to have a larger social impact.
- A key aspect of social innovation is the ability to assess the social impact of the efforts. However, there remains limited assessment and evaluation capacity within the nonprofit sector to demonstrate their impact (see Chapter 33 by Ruff).
- Organizations are limited in their capacity to engage in effective cross-sector partnerships to increase the scale of impact of social innovation. Greater effort is needed to create conditions that support nonprofits to partner with each other and to partner with organizations in other sectors. This might require a rethinking of the way that leaders are funded within current contracting arrangements. However, none of this would be possible without deeper reflection about the role of government and the exercise of power between government and civil society actors.

These challenges highlight some areas for further development within Canada to support social innovation, and more generally the civil society function of nonprofits to create social ties and promote social responsibility in social welfare development through the vehicle of social innovation. The list is not exhaustive, but it highlights some key areas that might be considered and mechanisms put in place to support innovation and the diffusion and replication of localized, incremental efforts of individual nonprofits and their networks.

Conclusion

This chapter described the notion of social innovation and reasons for its emergence within contemporary practice in the nonprofit and voluntary sector as a vehicle or mechanism for social welfare development in Canada. Recently, evidence has highlighted that nonprofits in Canada are engaged in socially innovative efforts; they are fulfilling a long-standing civil society function by undertaking a leadership role in the development of new initiatives and organizations to respond to emerging and persistent social issues. A simple look into the nonprofit and voluntary sector uncovers a great deal of social innovation: from the development of a new shared-space counselling program that reduces barriers to accessing mental health services, to a shelter program that opens operations closer to employment opportunities to reduce the time before a person is permanently rehoused, to a sexual assault centre that creates a global public-awareness campaign on gender-based violence, thereby transforming public perceptions. All of which is improving our social condition. Social innovations are achieving these ends through adaptations to existing efforts and processes, and through creating new opportunities for vulnerable and marginalized people. This role is not new for civil society in Canada, but expectations that nonprofits and their boards and staff will take on this leadership role have become institutionalized as a dominant means to respond to the social welfare needs of the population. Greater efforts need to be made that recognize this important role played by many nonprofis, along with the creation of more favourable cross-sector partnerships and the financial conditions that will help them to create these social innovations.

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Community and Corporate Intersections

Chapter 22

Community Foundations in Canada: Survive, or Thrive?

(with apologies to lawn bowlers)

Kevin McCort, Vancouver Foundation
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The popular image of lawn bowling is of beautifully manicured grounds, polite players – admittedly a bit older – and a staid, relaxed pace of play. The weather is always sunny, as lawn bowlers simply don't play in adverse conditions. On days when there are no games, the grounds and clubhouse are idle, waiting for the sun and players to return. Since most lawn bowling clubs were established many years ago, they often occupy some of the best land in the city, with rising property values creating tremendous wealth on the clubs' balance sheets. Observers often wonder if an exclusive club, sitting on a valuable asset that is used only a few times a year by a small group of people, is still the best use of this community amenity.

This may or may not be how lawn bowlers see themselves, but non-bowlers seem quite attached to this stereotype. With apologies to those who love lawn bowling, this chapter draws parallels between the world of community foundations and the widely held image of the game to enable reflection on how community foundations may appear to outsiders. Indeed, if you were to substitute "community foundation" or "endowment" in place of "lawn bowling" above, you would have a common parody of the old, conservative, rarely seen, grantmaking foundation. It is our hope that this chapter will provide insight that community foundations and lawn bowling communities may find useful to ensure both continue to thrive in our communities and attract new players, fans, and adherents well into the future.

The Argument

In recent years, community foundations have boomed in Canada, growing in number and assets and experimenting with new forms of community leadership. But, in a rapidly changing environment, they must not be complacent in the face of new challenges and risks. This chapter assesses these challenges and argues that, in order to thrive, Canadian community foundations need to:

- embrace stronger roles in community leadership, including broadening their definition of “community” and being more inclusive, developing and working through networks, and using their knowledge of community to become more active agenda setters;
- use all of their assets and capacities for impact; be more creative in their grantmaking and engage with other forms of community philanthropy;
- understand the competition from banks and related “commercial” sponsors of donor-advised funds (DAFs); address concerns about perpetuity of endowments and transparency of the use of private wealth; and
- better connect with the next generation of donors and new donors of all ages.

Many community foundation leaders will find this to be a challenging list, and given the reality that there are few existential challenges faced by endowed organizations, some may be tempted to dismiss the ideas or discover that, in the absence of extrinsic motivation, finding the intrinsic drive to change is just too hard to do. It is in this context that the chapter also notes the work of the broader community-foundation network and its members’ engagement and support of each other as they find their place on the continuum of passive to active community actors.

The Community Foundation Model

Community foundations are place-based public foundations that create pooled financial resources through donations and serve their communities by grantmaking and other forms of leadership. Often described as “hybrid” organizations, community foundations need to perform several roles simultaneously, as outlined in Figure 1. First, they need to engage donors to attract contributions, which in part depends on their visibility in their communities and their service to prospective donors.

Funds can be held in quite different ways: “unrestricted,” with the community foundation having full discretion over the allocations; “field of interest,” which are directed toward a particular community need or theme, with the community foundation determining specific allocations within that theme; “designated” toward a particular cause or charity of the donor’s choice when the gift is made; or “donor-advised,” in which the donor retains ongoing advisory privileges over the disbursements, including which charities, amounts, and timing. DAFs can function as pseudo-private foundations for donors: although managed by the community foundation, it has little influence over the granting, except providing advice when requested by donors. The amounts held as DAFs have grown dramatically in recent years, with the result that many of Canada’s larger community foundations hold up to 65% of their total assets as DAFs, not including other types of restricted funds (authors’ estimate).

Whatever the form, funds need to be invested and stewarded to produce returns, and increasingly to generate social as well as financial returns in an ethical manner through impact and responsible investing. Most community foundations provide advice, or at least information, to donors about community needs and projects as part of their community service and may be quite active in matchmaking donors to projects, which increasingly is facilitated through digital apps. Perhaps most prominent is the grantmaking function for undesignated funds – from the application process through evaluation of impacts. Serving the community goes beyond grantmaking to involve other types of resources and forms of leadership; for instance, convening other actors (from the public, private, and nonprofit sectors), developing the capacity and leadership of community-based organizations, and engaging in public policy (Suárez, Husted, & Caas, 2018). As public institutions, community foundations are expected to be accountable to their communities through their actions and their leadership. While in narrow regulatory terms this means that 50% of the board must have arm's-length relationships, in broader accountability and credibility terms, it increasingly means having diverse, inclusive boards and community connections, as well as being transparent about their work and their impact.

Figure 1: The Community Foundation Model in Action

Source: Community Foundations of Canada

Development of Community Foundations in Canada

The community foundation model was "invented" in Cleveland, Ohio, in 1914 by a local banker and lawyer, Frederick Goff, who had a vision to "pool the charitable resources of Cleveland's philanthropists, living and dead, into a single, great, and permanent endowment for the betterment of the city" (Cleveland Foundation, 2020). Goff saw the potential for greater efficiency in the management of trusts and the professionalization of grantmaking (Sacks, 2014). The concept was that a number of trusts, some with general and some with dedicated purposes, would be consolidated into a single organization that would exist in perpetuity, with its assets still managed by the banks, governed by a citizen board knowledgeable and responsive to community needs, thus making it easier for the banks to identify worthy recipients of the trust funds. The efficiency of the new philanthropic model came both in relieving the trust banks of the burden of grantmaking (and the need to fill out only one tax return for these multiple component funds) and in the professional management of grantmaking (Sacks, 2014). The idea quickly diffused across the United States so that by the end of the 1920s, community foundations existed in most major American cities. The concept also spread to Canada, again with the central involvement of a banker who helped found the Winnipeg Foundation in 1921. The difference was that the Canadian banker did not view this primarily as an efficient business model; his personal donation of $100,000 was a way of giving back to the community.

Take-up of the model in Canada was slow at first. The second community foundation was established in Victoria in 1936, prompted by the manager of a soup kitchen who believed that a philanthropic organization with stable funding could better serve a wide range of charities, with the support of his mother, who made an initial gift of $20 (wishing she could contribute more); the arrangement was formalized by provincial legislation. Next came Vancouver in 1943, also with a gift: $1,000 from a woman who had saved from her job as a secretary to help homeless women trapped in poverty, which was topped up to more than $100,000 by local philanthropists.

The creation of community foundations continued sporadically until the 1990s, when there was a flurry of new ones across the country, beginning to explicitly think of themselves as a "movement" rather than another version of institutionalized philanthropy. Today there are 191, serving 90% of all Canadians (anticipated to be 100% in the near future), which is more extensive population coverage than in the US (Wu, 2020). The most recent additions to the movement include Eenou-Eeyou in 2015, serving predominantly Cree communities in northern Quebec, and Fort McMurray in 2017, established following the devastating wildfires of the previous summer. Work is underway to establish the Arctic Communities Foundation, which would put the movement at the 100% coverage goal. This milestone does not imply that no further community foundations will be created. For example, the provincial legislation promulgated in 1950 that governs the Vancouver Foundation gave the organization a province-wide mandate – yet British Columbia is home to more than 50 community foundations in as many cities and regions that opted to create local entities that could be closely tailored to the communities' particular priorities and aspirations. The community foundation model – in varied forms – has also taken root in many other countries, with the result that there are now 1,876 worldwide (Community Foundation Atlas, 2020).

A common expression in the community foundation movement is "If you've seen one community foundation, you've seen one community foundation." This saying, in part, reflects the differences in size. The country's largest include the community foundations in Vancouver, Winnipeg, and Calgary, each of which manages more than $1 billion. The next tier, with assets over $200 million (in 2018) are Edmonton, Toronto, Victoria, and Hamilton. Particularly in smaller centres, most community foundations are still fledgling, with assets of under $100,000 and run mainly by volunteers. The saying is also a tribute to the unique attributes communities often assign to themselves, or the specific combination of services that are provided to fundholders or grantees.

Most of the research on community foundations is focused on the US, where a major concern has been the dominance of the role of donor service (Graddy & Wang, 2009), accompanied by an admonishment to become more engaged in community leadership (Bernholz, Fulton, & Kasper, 2005; Hamilton, Parzen, & Brown, 2004; Sloan, 2020). While there are many commonalities in history, form, and function, the community foundation network in Canada has some distinctive features compared to the US and other countries. One legacy of the differing origins of Canadian community foundations has been less of an embedded banking ethos, which, from the very beginning, created greater space for a role in community leadership over a focus on financial management. Perhaps the greatest difference, however, is that Canadian community foundations are supported by a strong national umbrella organization formed more than 25 years ago that has overseen and supported the significant growth in the number of centres. Since 1992, investment in Community Foundations of Canada (CFC) by the larger and more established foundations provided initiatives in new locales with resources, expertise, and allies as they worked to establish foundations. The existence of the umbrella undoubtedly shortened the learning curve for new foundations and enabled the rapid proliferation of foundations across Canada. The national infrastructure in other countries is viewed as more fragmented and less well supported by its members than what exists in Canada, with our cohesive and supportive network viewed with a degree of jealousy by other national movements (Jung, Harrow, & Phillips, 2013).

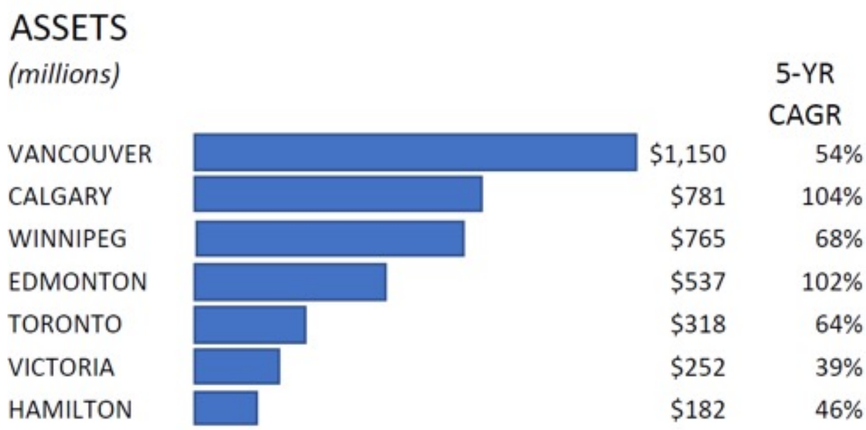
A challenge the authors acknowledge in writing this chapter is that the community foundation movement is evolving rapidly, and we see considerable variation across foundations. Our aim is to identify the underlying dynamics that are leading to adaptation (in some cases) or that, if ignored, will lead to atrophy (in other cases).

Trends: Growth and Constraints

Growth in Assets and Granting

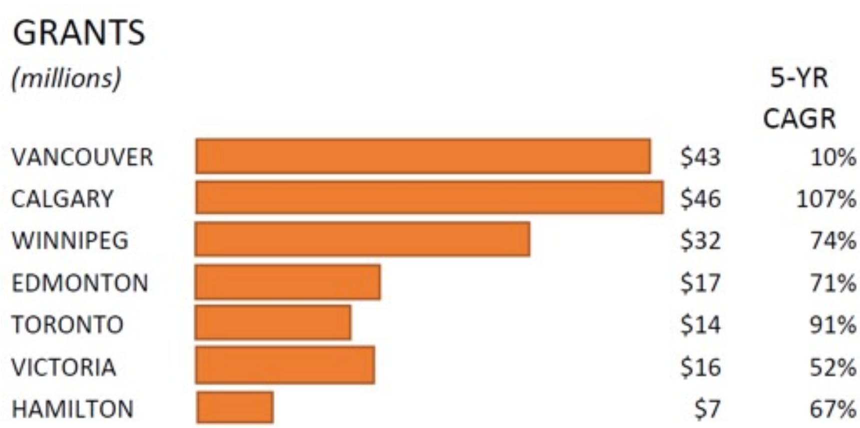
The growth in numbers of community foundations and the simultaneous increase in geographic coverage have been accompanied by marked growth in assets and grantmaking. Community foundations across Canada have benefited from two simultaneous forces. Almost a decade of strong investment returns combined with very substantive intergenerational transfers of wealth from the "civics" and now from the "boomers" has favourably impacted the business model of foundations – based as it is on attracting gifts of assets (as opposed to gifts from income) and investing those resources and disbursing/reinvesting investment returns. A review of the audited financial statements of the seven largest community foundations in Canada (Figure 2) shows these two trends at work – leading to average annual growth rates of assets under management of 68% (with a range of 39% to 104% from 2011 to 2016). A review of grantmaking numbers shows similar overall growth, with an increase in grantmaking over the period of 67% and a range in grantmaking growth over five years from 10% to 107%.

Figure 2: Growth in Assets and Grants 2011–2016



CAGR = compound annual growth rate

Source: Internal working papers, Vancouver Foundation. NB: Assets are as per fiscal year 2016



Source: Internal working papers, Vancouver Foundation. NB: Grants are as per fiscal year 2016

While these trends are visible and paying dividends among many community foundations, a common dilemma is "right-sizing" the organization vis-à-vis the asset base and its ability to generate both granting and administrative revenue. With one or two exceptions, most community foundations start out with a modest endowment and an all-volunteer board. As assets grow, at some point the board will seek to hire their first staff members – and will surely agonize over when is the right time to take that step. It can often be a "chicken and egg" scenario – described as "We're not big enough to hire staff, but without staff we can't grow." Helping smaller community foundations navigate this decision is where the CFC network and the larger community foundations play supportive roles. CFC maintains a "foundation development" practice that provides a wide range of organizational development services to members.[1]
In addition, the expertise of investing and managing the endowments of larger community

foundations such as Vancouver, Victoria, and Winnipeg may also provide "back-office" support for the benefit of many smaller community foundations in their regions or provinces.

The main reason a community foundation wants to grow in the first place is not about the organization; it's about the grants it can deliver to its community. Here again, many find themselves stuck: a small endowment generates modest grantmaking, and modest grantmaking won't capture the attention of community members. This lack of grantmaking visibility may directly dampen potential growth, as those with the means to support the community foundation may not know it exists since it is so rarely seen (like lawn bowlers in winter). Here is another area where the national network has played a useful role in raising the grantmaking capacity and visibility of smaller foundations, with a series of funds developed and secured by CFC that are designed to be distributed via the CFC network. A high-profile example was the "Canada 150" program that matched community grants designed to build a greater sense of belonging through local projects connected to Canada's sesquicentennial (Carlton & Lyons, 2020). More than 3,000 projects across Canada were supported, with $7.5 million in additional grant funding added to money generated by 170 of the CFC members who participated in the program.

The behaviour and spirit behind these initiatives are worth noting. Rather than seeing growth of another community foundation through the lens of a win-lose prism, where your growth means my stagnation, the movement and its members actively encourage and celebrate growth wherever it occurs, viewing it as additionality, and an intrinsic good wherever it occurs. Lawn bowling leagues (and indeed all sports) have long witnessed this same dynamic: growth in one club in one part of town often works as a catalyst that causes or spurs growth elsewhere as more players and fans want to be part of the action.

While CFC and community foundations are discovering and perfecting ways of increasing foundation assets, grantmaking, and visibility, calls for community foundations to provide leadership are met with a different set of constraints, not least of which is the ambiguity behind the call to action. Lead? Lead who? Where to? Why me? With what resources? The next section examines three of these constraints: those created by rising donor-centric expectations, the evolution of place in philanthropy, and the definition and relationship with "community."

Donor-Centric Constraints

Those calling for leadership through grantmaking need to take into account the very real constraints many community foundations face, especially those whose endowments consist primarily of donor-advised or agency funds – i.e., a fund where the community foundation is following the granting instructions left in the deed of gift and is not able to direct grant dollars to areas the foundation board may see as most needing foundation leadership. Many foundations have mostly restricted assets and thus have very little capacity to deliver "leadership"-type grantmaking. For example, a community foundation with a 90:10 ratio of restricted to unrestricted assets that is disbursing, say, $1 million per year will have the opportunity to influence just $100,000 of its total gifts that year. Others have ratios that enable their boards to be more responsive to calls for community leadership. For example, the Vancouver Foundation disburses 60% to 70% of its grant funds by following the directions of the deed of gift. While responsive grantmaking is thus still the minority of what it disburses, 30% to 40% of $50 to $60 million annually is significant, and Vancouver's responsive grantmaking can be an influential source of funding that responds to community needs not met by existing DAFs.

DAFs present a distinctive challenge given their growth in popularity over the past decade, and the potential competition between community foundations and host foundations affiliated with financial services (and their wide networks of financial advisors) and by independent, specialized sponsors. The appeal of DAFs is that they enable the donor to claim the charitable tax credit at the time the contribution is made while delaying disbursements to a later date and maintaining advisory privileges on grantmaking. Although used mainly by affluent donors, DAFs also enable families to start with more modest contributions and grow the asset over time, in order to make more substantial gifts, with the intent of engaging younger generations in philanthropic decision-making. There is no disbursement requirement on individual accounts, only the Canada Revenue Agency (CRA) requirement of 3.5% for the sponsor foundation (as exists for all foundations and charities). In recent years, a very lively debate has emerged in the US over the need for greater regulation on the payouts and timing of disbursements and for increased transparency and monitoring of potential conflicts of interest by the foundations affiliated with for-profit investment firms (Madoff, 2018).

Much of the hand-wringing in Canada about competition is based on observations of what has occurred in the US with DAFs offered by for-profit financial institutions, such as Fidelity, Vanguard, and Charles Schwab. Observers have noted that the Canadian equivalents (Aqueduct by Scotiabank, TD Private Giving Foundation, etc.) haven't seen the explosive growth witnessed in the US, where funds given to the top commercial DAF, Fidelity Charitable, exceeded donations to the network of United Way agencies for the first time in 2015 (Lindsay, Olsen-Phillips, & Stiffman, 2016). It is difficult to estimate the amount of funds held as DAFs at Canadian community foundations because they do not count or report these uniformly; for instance, some categorize endowments and other donor-designated funds as DAF assets (Strategic Insight, 2018). The best estimate is that DAFs at Canadian community foundations grew by almost 40% from 2016 to 2018 (Investor Economics, 2020) to a current total of $1.5 billion, representing a constant average share of about 27% of the total assets of community foundations, although often much more at the larger foundations.

In order to attract a broad range of DAF donors and serve both clients and community well, Canadian community foundations have sought to distance themselves from the "commercial" providers by lowering minimal entry amounts (for example, to $5,000 at the Toronto Foundation) and providing more active donor education and advice. Many have also sidestepped the criticism of a lack of transparency of DAFs by providing names of the holders as well as annual contributions and grants, as does the Calgary Foundation. In contrast, many US community foundations have aligned with private foundations in opposing initiatives aimed at enhanced transparency or higher payout rates, pitting them against state nonprofit associations that support such moves (Phillips, Dalziel, & Sjogren, 2020). The Special Senate Committee on the Charitable Sector (2018) seemed to recognize that the issue of DAFs and the regulatory regime is somewhat different in Canada than in the US (Colinvaux, 2018) and that regulatory reform is complicated. It thus issued the rather vague recommendation that measures be taken to ensure that "donations do not languish in donor-advised funds, but are instead used to fund charitable activities in a timely fashion" (Special Senate Committee, 2018: 21). At the very least, any pursuit of regulatory change needs to recognize that many of the public-interest implications of DAFs held by community foundations differ from those held by "commercial" sponsors.

Internally, the growing significance of DAFs and other donor-restricted funds creates an inherent tension for community foundations as they attempt to straddle two strategies: to serve donor interests faithfully in accordance with their wishes while at other times asking donors to entrust the foundation with assessing need and disbursing funds according to its wishes. A donor-centred strategy often provides the decision-making guidance for foundations navigating this tension, but it can mean that getting to a place where the foundation has meaningful amounts of unrestricted funding is a long-term and uncertain proposition.

The Evolution of Place

Defined mainly by their geography, community foundations have a very "place-based" identity, with the name or tagline clearly identifying the community, region, or province the foundation serves. This convention is starting to change, however, in two ways. First, since DAFs held by, say, the Vancouver Foundation can support charitable work anywhere in Canada, the Vancouver-based DAF, if working with a CRA-qualified donee, can support philanthropic work anywhere in the world. The most dramatic example of a community foundation changing from exclusively place-based to an institution that supports communities as defined or chosen by the donor is the Silicon Valley Community Foundation (SVCF). First off, Silicon Valley itself isn't an actual place on a map; it's a loose, shifting location around the Bay Area of California. Second, in 2019 DAFs held at the SVCF directed almost two-thirds of their total grants ($1.2 billion) to organizations outside the generally accepted notion of what is the Silicon Valley, $82 million of which went to 72 countries outside the US (SVCF, 2019). The criticism of SVCF (Gunther, 2017) about its grantmaking is an example of one of the pressures faced by more and more community foundations; the growing importance of place is accompanied by an understanding of community that is no longer exclusively place-based. By way of contrast, DAF granting outside of British Columbia via the Vancouver Foundation is generally less than 5% of the $53 million it grants annually. Signs are that this kind of non-geographic community giving will grow, thus challenging community foundations' sense of who they are and who they serve.

The second driver for taking a "pan-place" view is the commitment of Canadian community foundations to pursuing the United Nations Sustainable Development Goals (SDGs) in their work (CFC, 2020). While guiding work in their home locales, the SDGs provide "an important connection between local actions and global aspirations" (ECFI, 2020). In applying the SDGs to their grantmaking and leadership at home, community foundations better appreciate the impact of global and regional influences and are urged to see their work as "part of something bigger" and to "scale beyond local communities" (CFC, 2020; McGill, 2020).

In addition to the place-based tension, a temporal pressure also exists and is becoming more acute. Common throughout the community foundation network – not unlike the land envy some lawn bowling clubs may feel from covetous property developers – is the tension between the merits of a charity saving and investing for the future when faced with very real demands to spend charitable dollars in response to the needs of today. Generated by a growing critique of endowed funds held in perpetuity as inefficient (Burrows, 2011), this tension is manifest in calls for funds to disburse at higher rates than the minimum CRA requirement or to serve as flow-through funds rather than permanent endowments. During the COVID-19 pandemic, for instance, 69 foundations, mainly family foundations with a few community foundations, joined the Give5 initiative, pledging to disburse 5% of their assets in 2020 (Sidovovska, 2020).

Diversity and Inclusion in the Evolution of Community

Community foundations need to achieve a “special double trust” of honouring generous donors and managing endowments for future generations while advancing “new visions for communities” (Noland, 1989). Arguably, their boards must perform a more complicated balancing act than those of private foundations or operating charities. They are expected to reflect place,[2] provide networks and connections,[3] bring reputation and status that enhances visibility (Paarlberg, Hannibal, & Johnson, 2020), offer expertise and collective knowledge of the finance and investment world, and generate a sense of ownership by the community (Lachapelle, 2020). Historically, this has tended to encourage their leadership to focus on the financial aspects of their work, making boards risk-averse and fearful of alienating potential major donors (Millesen & Martin, 2013). Concerned with representing major institutional, business, and other “pillars” of the locale, it has also produced boards lacking in racial, gender, or experiential diversity. As late as 2017, a report by BoardSource (2017) indicated that 44% of US community foundations had all-white boards (compared to 24% of public charities and 39% of private foundations). As the concept of “community” has shifted from a rather simple one delimited in geographic terms to one defined by and appreciated for its diversity and intersections, it has become a matter of credibility – as well as organizational effectiveness – that boards embrace meaningful inclusion.

Canadian community foundations, at least the larger ones, have made significant strides toward gender, Indigenous, and racial inclusion, albeit with a continued strong representation of the financial, legal, and other major institutions of the community. The limitations of small boards in being truly inclusive and the need to more fully engage with a wider range of population groups and interests has prompted innovations, such as creating youth advisory circles (as in Vancouver and Calgary) and “community engagement” committees (as in Montreal) and involving a variety of community-based expertise and experience on other committees. With dual pressures for visibility, linked to competition for donations, DAFs, and “next-gen” supporters; and for credibility, to support claims of community leadership, diversity, equity, and inclusion will be an ongoing imperative and basis of innovation by community foundations.

In the pursuit of more effective community leadership in the context of changing dynamics of place and population, Canadian community foundations have undertaken a variety of other notable innovations and intersections, some of which we explore in the next section.

The Innovations: Leadership by Canada's Community Foundations

Community leadership extends beyond grantmaking by drawing on extra-financial resources: through convening others for collective action, shaping ideas and agendas, enhancing the capacity and leadership of charities and community-based organizations, supporting innovation, and engaging in public policy.

Convening

The Hamilton Community Foundation was an early leader in cross-sector collaboration for social change. In 2002, it made addressing rising rates of poverty in the city its major issue, undertaking multi-year grantmaking, but it also recognized that no one sector alone had the solutions for tackling poverty. It co-convened, with the municipality, the Roundtable for Poverty Reduction (HRPR), in which it is still centrally involved. The HRPR provides a "safe space" for frank discussions, identifies opportunities and barriers to progress, levers and aligns other resources and investments for change, connects other organizations, and shares lessons learned (Makhoul, 2007). The Hamilton Community Foundation provided operational support, used its connections to local business to mobilize their involvement, and supports a Neighbourhood Learning Institute to build leadership at the local level.

Similarly, the Fostering Change initiative of Vancouver Foundation combined the roles of convenor, funder, ally, and champion over a sustained period in response to a widely held community concern: supporting better outcomes for youth when they age out of the provincial foster care system. With the advice of a youth advisory circle, by engaging youth nonprofits and mobilizing public opinion through surveys and a petition, significant changes in policy and practice were achieved. With such success, the Vancouver Foundation recently returned the initiative to the community that had inspired it.

Knowledge for Agenda Shaping

When the Toronto Foundation pioneered the first *Vital Signs* report in 2001, they likely didn't foresee its adoption and widespread promotion among the community foundation network in Canada, and indeed now around the world (Harrow & Jung, 2016). These reports are seen as an authentic and valuable resource developed through using a blend of data and statistical analysis, listening to community voices – especially those not often heard, sharing the results and insight with everyone concerned with community well-being, and using the reports to animate wider policy conversations. The adoption of *Vital Signs* is not confined to the larger foundations, as 29% of those that produced reports from 2007 (albeit not necessarily every year) are quite small, with assets under $2 million, and about half are mid-sized (with assets up to $50 million) (Phillips et al., 2016). Although the *Vital Signs* reporting and subsequent conversations are distinctive to each centre, as a pan-Canadian initiative the process has enabled the concerns raised in local reports to percolate upward, to a national scale, then be diffused through CFC to other locales. For instance, the concern about a sense of belonging that was expressed in *Vital Signs* reports in Vancouver and Waterloo in 2011/12 was taken up in a countrywide report in 2015 and subsequently examined in community contexts in other centres (Phillips et al., 2016).

Impact investing

Several community foundations – notably Edmonton, Hamilton, and Ottawa – have been at the forefront of the growing field of impact investing: investing their endowments and assets for social good as well as financial returns. The work of the Edmonton Community Foundation through its Social Enterprise Fund (SEF) is illustrative of the kind of response community foundations are pursuing as they strive to use capital and income to address community needs. The SEF offers patient debt financing to public benefit organizations that are working to improve their communities and have difficulty accessing traditional financing sources. "Since its launch in 2008, SEF has provided loans of all shapes and sizes to more than 40 organizations. These loans are for everything from improving access to locally produced food to cleaning the environment. They can range from building affordable housing to creating jobs for at-risk youth. Many loans have been paid-in-full, with the capital recycled into new investments" (Edmonton Community Foundation, 2020).

This work was elevated across the community foundation network with the creation by the federal government of the $755 million Social Finance Fund in 2018, intended to stimulate the social investment market. However, the demand side – the capacity of charities and nonprofits to make use of social finance tools – was underdeveloped (Jog, 2020). An additional $50 million has been provided as an Investment Readiness Program that is administered by CFC (with other national partners) and delivered regionally mainly by community foundations, offering funding to social purpose organizations to develop mechanisms for revenue generation using loans or equities.

Relationship Building toward Reconciliation

At the conclusion of the Truth and Reconciliation Commission in 2015, a number of philanthropic institutions, including many community foundations and CFC, signed the Declaration of Action making a commitment to advance reconciliation among Indigenous Peoples and settler society. While the specifics of actions and progress varies, reconciliation remains a priority for many community foundations, of which Winnipeg is a leading example. Its 2017 *Vital Signs* report identified reconciliation as a priority for the city, and the Winnipeg Foundation (2019) has pursued this path through means of awareness- and relationship-building, a focus on youth-led reconciliation through its Walking Together program, creation of a non-endowed Reconciliation Fund, support for capacity building in Indigenous community organizations, and a commitment to comprehensive reporting on process. Other community foundations, such as Ottawa, have taken steps to identify and rectify barriers to reconciliation in their grantmaking processes (Dougherty & Ethier, 2020) and to initiate new funding streams for Indigenous communities and "reconciliation" projects.

Sharing Knowledge through the Network

The widespread adoption of *Vital Signs* points to the inherent value that a network of community foundations can deliver in supporting learning and adoption of promising practices. Considering that community foundations had been active in Canada since 1921, the fact that it took until 1992 (more than 70 years!) to establish the umbrella network might cause an observer to question their willingness to work together. Recent experiences where the network has delivered value to the members (e.g. Canada 150, the Syrian refugee crisis, Queen Elizabeth Scholars) have added a new dimension to the equation. Not just a network to share learning, CFC has demonstrated to major donors, governments, and corporations that if they seek to deliver philanthropic funding throughout Canada, and to ease their administrative complexity by doing this through a single point of contact, the CFC network is ideally suited for the task. The Welcome Fund for Syrian Refugees established in 2016 provides an excellent example: a single grant to CFC in Ottawa could be accessed by any of the 191 members, thus enabling the funds provided by the donor to be deployed across Canada through a local community foundation to partner agencies deeply integrated in assisting newly arrived Syrian refugees (Carlton & Lyons, 2020). The simplicity of this from the donor (and government) perspective, compared to negotiating and funding individual grants on a project-by-project basis across Canada, may prove to be one of the most impactful attributes.

This "single access" approach was duplicated during COVID-19 when CFC (with United Way/Centraide and Canadian Red Cross), working through its members, became the delivery agent for the $350-million federal Emergency Community Support Fund (ECSF) to assist vulnerable communities. Processing more than 10,700 applications for support in the 2020 first round alone, community foundations had to scale their grantmaking capacities very quickly, and smaller organizations were significantly stretched. It is unclear whether this major emergency response will have longer-term effects on the configuration of grantmaking priorities and the balance of granting versus other forms of community leadership. However, it has contributed to the complexity of the changing environment for community foundations.

The Risks in a Changing Environment

The former president of the Silicon Valley Community Foundation, Emmett Carson, put the cat among the pigeons in 2011 when he said, "In five or 10 years, I fear that many of the institutions in this room won't be here. Revenues aren't meeting expenses. Other people offer what we perceive as our core product (i.e. donor advised funds) at a cheaper price – zero. As for raising costs: talk to Netflix. In this environment, that doesn't work" (Duxbury, 2011; see Carson, 2015). By challenging community foundations with the assertion that their business model was broken, a debate was launched: what, exactly, is the business model of a community foundation? And if you reach consensus on the model, is it in fact breakable? Rather than try to take that task on, this section will instead explore the variety of risks – and different levels of risk, depending on the stage of development of individual organizations – that community foundations face.

Most importantly, we are seeing some big changes in the traditional patterns of philanthropy. Charitable giving is falling (or flat) year over year, and it is shifting, with big donors giving an ever-larger proportion of the diminishing donation pool (CanadaHelps, 2020). This trend is likely affecting community foundations least, as estate gifts tend to be larger, and most foundations are not competing in the retail, small-sum, annual-giving marketplace where we see extensive competition and signs of decline.

While giving behaviour and amounts are shifting, donors' expectations are changing as well, with more and more seeking an active role in managing their gifts. Many donors are no longer as willing to rely on a charity to be the intermediary between them and their cause. Whereas disintermediation is a significant challenge to the United Way movement, as donors opt to give directly to the charity of their choice, this trend also has some, but not dramatic, impact on community foundations. First, a donor who sets up an endowment at a community foundation can direct their granting – removing the United Way from the equation but inserting the community foundation in its place. Second, as community foundations generally don't seek to be in the market for flow-through donations to charities, the loss of this market is a non-event for them. One challenge that community foundations need to address with donors who seek greater control over their giving, however, is that it often goes hand in hand with higher demand for access to online grantmaking tools and services. Some donors may also seek advisory services from the foundation staff as they wish to tap into community knowledge held by the foundation. The increase in demand for services can strain the infrastructure and support abilities and may outstrip the capacity of the foundation to provide them (and note Carson's point that raising fees to expand service offerings is a non-starter).

Ultimately, the viability of a community foundation's business model is determined by its ability to raise an endowment and manage its investment in such a way that it generates a) sufficient return to meet its disbursement quota (3.5% of its value), plus b) additional return to protect the capital from the erosive impact of inflation (1% to 3% annually), and c) enough return to cover fees and costs. The challenge smaller foundations often face (and the one Carson was likely addressing) is with endowments that are out of sync with the costs they are expected to support. This is not a problem with the "business model" per se, but a problem with the "business," wherein the board or management has built a cost structure that existing revenue can't support. This can certainly be an existential challenge for *that* foundation, but it isn't a systemic risk or threat to all foundations.

The true risk to the business model of all foundations is not managerial or even from poor returns on investments, but rather regulatory. Recent, but still limited, debate has been seen in the US and Canada questioning the very notion of perpetually endowed funds. The arguments marshalled by the critics often raise the timing mismatch of the tax benefit the donor receives (immediate) compared to the time frame of benefits to the public (typically taking 20 years for the endowment to generate investment returns equivalent to the original donation; longer if you factor in the net-present value of the donation). A public pushback against perpetuity (Reich, 2018) could undermine the social licence and legitimacy that foundations and endowments currently enjoy and could give more momentum to those who are leading the charge to raise the minimum distribution rate or launch court challenges to gain access to endowments and put them to use against present needs. For example, one US proposal is to raise the payout requirement to 10% on an emergency basis for three years to address the effects of COVID-19 (Collins & Flannery, 2020). Governments seeking to raise tax revenue may also decide to tax endowment income, as the US has done. The tipping point for the sustainability of the endowment is when the expenses incurred (disbursement, taxes, fees, administration, etc.) exceed its ability to grow. When those costs are imposed by government regulation (rather than by foundation management), only then can one say the business model has been broken.

So how, then, will community foundations thrive in the years to come? Most believe the future lies in exercising community leadership, thus positioning the foundation so that it can understand and respond to community priorities using its various assets – be it the endowment, its granting income, convening abilities, knowledge mobilization, or any combination of these attributes. This is assumed to ensure the foundation supports meaningful and visible work, thereby attracting donors, staving off disintermediation, and mitigating regulatory risk. In addition, being a member of a growing and influential network confers benefits to all members of the network, but it also means that a systemic risk can flow through a network much faster than a systemic benefit. As the CFC network becomes ever more connected and (perhaps) interdependent, the movement has to be mindful that a scandal in one will affect the reputation of many.

Foundations that have yet to reach the inflection point of sufficient unrestricted grantmaking assets to demonstrate their own leadership abilities may have potential through greater engagement with donor-advised fundholders. Many DAFs follow quite traditional grantmaking patterns – sprinkling funds to their few favourite charities year after year. As these grants are very much appreciated by the recipient charities, rather than try to shift this granting to emerging leadership opportunities, foundations are working with these donors to expand their giving, either by increasing their endowments or adding a new stream to their annual giving, recognizing that many DAF holders do have capacity for increased contributions – they may just be looking for new ideas.

Many foundations are also exploring the concept of using all assets for impact – for some, this will be responsible investing – investing their endowment only into companies using environmental, social, and governance (ESG) considerations or those that adhere to the United Nations Principles for Responsible Investing. Others will engage in impact investing, seeking to invest locally in organizations or social enterprises that generate the so-called double (or triple) bottom lines – that is, generating a financial return *and* a social return.

Participating in debates about the regulatory regime governing charities is essential for community foundations to engage with and ensure they present their worldview and contributions to those who make the rules that enable or inhibit the work and growth of the foundation movement.

Connecting with the next generation of donors and new donors is often presented as a conundrum for community foundations. Most young donors don't have the means or the inclination to establish an endowment, an event that normally follows either a major financial transaction or a death, neither of which are common among the young. But unless they are donors when they are young, why would they give to you when their circumstances have changed? Consequently, community foundations are addressing the imperative of connecting with the next generation in a variety of ways. Toronto Foundation and its Vision2020 initiative are working to find younger donors who do have the means (either through inheritance or early wealth creation) and encourage them to set up "starter" funds. Vancouver Foundation engages extensively with young people in its granting programs, ensuring that it is known among younger citizens, but not simultaneously trying to turn them into donors.

Conclusion: Like Lawn Bowling – Surviving or Thriving?

Whether large or small, community foundations in Canada face a similar challenge. An asset base delivers steady, secure income but may also build a sense of complacency. Likely working against complacency will be vocal community members asking that you do more for the issues that matter. The demands will often be contradictory and reflect the full variety of opinion and priorities that exist in our communities. Expectations will far exceed organizational capacities, as many observers will not understand the limited range of options. When a community foundation is tempted to take the easy path and disburse grants according to deeds of gifts, and either can't or doesn't develop the capacity to use the full range of foundation assets (financial, reputational, knowledge, etc.) to provide community leadership, it may become like the proverbial lawn bowling club that survives because some people enjoy its services. But it doesn't thrive and doesn't reflect the energy of the wider community.

To be fair to our animating metaphor, it appears that in many places lawn bowling is being reinvigorated, mainly by youth doing it "barefoot." Compared to various alternatives, it is relatively inexpensive, easy for newcomers, social, out in the sunshine, and can be done without the old rigidity of dress codes (or shoes). Perhaps reinvented lawn bowling is an apt metaphor for the future of Canadian community foundations after all.

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Notes

[1] Categorized (roughly) as Group I, with assets under $2 million; Group II, with assets under $100 million; and Group III, with assets over $100 million.

[2] In some centres, as in Edmonton, there is a twofold institutional process of selecting board members. First, prominent municipal institutions – the mayor, representatives of business, labour, universities, and the United Way, among key local organizations – appoint the nominating committee when recruiting board members.

[3] In a recent study, Paarlberg, Hannibal, and Johnson (2020) demonstrate the importance of interlocking board memberships for organizational reputation and status. Phillips, Grasse, and Lenczner (2016) find that community foundation boards are quite different from those of United Ways, notably that community foundation board members are much more likely to sit on other nonprofit or foundation boards than are those of United Ways.

Biography

Kevin McCort, Vancouver Foundation

Kevin McCort is president and CEO of Vancouver Foundation, a role he has held since 2013. Prior to joining Vancouver Foundation, Kevin worked with some of Canada's leading humanitarian aid organizations, including six years as president and CEO of CARE Canada. As the scale of Vancouver Foundation has grown, Kevin has also worked to expand its impact, pioneering new initiatives and innovations that create meaningful change at a community level. Kevin has led his team in a transformation of Vancouver Foundation's approach to community granting, focusing on supporting systems-change work that addresses root causes of pressing social, cultural, and environmental issues. Kevin serves on the board of Community Foundations of Canada and is a member of the Advisory Committee on the Charitable Sector, advising the Minister of National Revenue.

Susan D. Phillips, Carleton University

Susan Phillips is professor, School of Public Policy and Administration, Carleton University, and director of its Master of Philanthropy and Nonprofit Leadership (MPNL) – Canada's only graduate program in this field. She serves as editor-in-chief of *Nonprofit and Voluntary Sector Quarterly,* the leading international journal on nonprofits, philanthropy, and civil society, and is an associate of the Centre for the Study of Philanthropy and Public Good, University of St. Andrews, Scotland. Susan's research focuses on place-based philanthropy and public policy/regulation of charities and nonprofits. She is co-editor of *The Routledge Companion to Philanthropy* (Routledge, 2016) and is currently co-editing a book on disaster philanthropy and leading a study team exploring the question "What makes some charities more resilient than others?" Her work in advancing research in nonprofit studies has been recognized by a Distinguished Service Award from the Association for Nonprofit and Social Economy Research (ANSER) and in public management from the Canadian Association of Programs in Public Administration (CAPPA).

Community and Corporate Intersections

Chapter 23

Community Wealth Building: A Canadian Philanthropist's Perspective

Colette Murphy
Atkinson Foundation

There is an old saying in philanthropy that goes something like this: "Give someone a fish and they will be hungry tomorrow. Show them how to fish and they'll never be hungry again." I lead a philanthropic foundation that exists to change this narrative.

At the Atkinson Foundation, we do this with strategies that challenge assumptions about inequality (that it's inevitable), the economy (that it's controlled by an invisible hand), philanthropy (that it aims to fix individuals and their problems), and the systems that perpetuate them (that deep structural change is impossible).

Social and economic justice has been our focus since 1942. Even though we've had a laser focus on the problem of poverty for decades, income and wealth inequality continues to rise unchecked. This fact led us to refocus on the solutions of decent work and a fair economy in 2014 – and to pick up new community-wealth-building tools to help construct them.

Learning while Building Community Wealth

In May 2014, two private-sector construction consortiums were preparing to enter their final bids on Toronto's largest single investment in public transit. They were competing for the contract to construct Toronto's Eglinton Crosstown light rail transit (LRT) line, a 19-kilometre, 25-station route in which the regional transportation agency Metrolinx was preparing to invest $5.3 billion through 2021 – one of many major projects planned for the next decade in the region. In the lead-up to their submissions, Metrolinx invited the final bidders to a meeting at the North York Civic Centre and introduced both teams to a coalition called the Toronto Community Benefits Network (TCBN).

TCBN started to take shape in 2012 out of organizing work by residents in the Weston–Mount Dennis neighbourhood. A number of community, nonprofit, and labour groups, supported by the Atkinson Foundation and other philanthropic organizations, rallied around an ambitious goal: creating opportunities for historically excluded communities through the development of the Eglinton Crosstown LRT. They envisioned economic opportunities like new jobs and apprenticeships. They also saw opportunities to engage the residents most affected by the build on their own terms – not only as stakeholders with an interest in the project, but as shareholders and citizens with democratic power to participate in decision-making.

At its founding, TCBN knew that Metrolinx was preparing to spend more than $5 billion in public funds on the new LRT. It knew that the project was about to bring major construction work to a stretch of the city that included five of Toronto's lowest-income neighbourhoods and where many residents faced persistent barriers to opportunity. It knew that residents of these areas would experience the disruption of construction in the near-term and were not likely to share in the economic benefits of the new transit line. There were no clear pathways to jobs related to the LRT's construction for residents. And once the line was complete, rising property values in the area would likely leave many vulnerable to displacement. They would not ultimately benefit from the improved connectedness of the neighbourhood.

Development had already played a contributing role in the growing polarization of income and wealth in Toronto and the surrounding region over the last 20 years. TCBN and its allies resolved to reverse this trend by demonstrating how public investments can do double duty: modernize infrastructure and reduce costly inequities.

Inspired by examples of successful organizing efforts in the United States, TCBN wanted to find new ways for residents living near the Eglinton LRT to share in the benefits of the line's construction. They expected them to emerge from the development process with more power and prosperity than they'd had before. They started to articulate a set of "community benefits" such as jobs, training, apprenticeships, social enterprises, and strategies aimed at greater economic inclusion and democratic engagement.

Organizers found a receptive partner in Metrolinx. In April of 2014, TCBN and Metrolinx co-signed a Community Benefits Framework, committing in principle to incorporating community-benefits expectations into all of the transportation agency's major Toronto projects. This meant that bidders would have to articulate how they would devote a share of the project's resources to local needs and aspirations – whether training and hiring local workers, building local amenities, or otherwise enhancing the community.

Representatives of the two final construction bidders gathered at the North York Civic Centre the following month to hear presentations from the TCBN. At the meeting, firms were introduced to the principles and mechanics of "community benefits" as a tool for equitable economic development. How the presentation was delivered, and by whom, made the idea come alive. The construction firms faced a strong coalition of coordinated, disciplined community representatives – who collectively had the backing of the public agency that controlled the project's budget. The community coalition had been preparing for more than two years and proved that it was ready to sit at the table with the successful bidder and articulate expectations for how local people and businesses should share in the economic opportunity represented by the new LRT.

This strategic consolidation of community power for collective benefit is painstaking work. The building of shared principles, trust, and new forms of collaborative leadership can be as complex and challenging as building a transit line. It is, nonetheless, a prerequisite to the introduction of more equitable approaches to economic development like community wealth building. This approach is gaining traction across Canada because it has started to deliver better results for more people than the traditional development process.

What Is Community Wealth Building and Why Does It Matter?

Community wealth building is an approach to local economic development that uses a range of strategies to reduce income and wealth inequality and share prosperity more equitably. It can include:

- Community benefits agreements (CBAs): these agreements harness major project spending – either by government or private developers – to support workforce development, the creation of affordable housing, and other neighbourhood improvements that support economic inclusion. They can be stand-alone contractual agreements between a community and a developer, or they can be provisions embedded into contracts that govern the procurement of goods or services (like the Eglinton LRT). Agreements vary in their degrees of specificity (for instance, with respect to hiring targets) and enforceability.
- Social procurement by anchor institutions – entities like hospitals, colleges, and universities that have strong local roots – which can use their operational spending to advance goals like equitable economic development, affordable housing, and environmental sustainability.
- Co-ops and worker-owned businesses that are governed democratically, share profits more equitably, and keep revenues circulating locally, as opposed to enriching shareholders and fuelling a corporation's expansion elsewhere.

Decades ago, communities seeking economic development would compete with each other to persuade large corporations to set up offices or plants, bringing jobs to build the local tax base and fuel local spin-off businesses. Many communities have been economically destabilized, however, when their main employer has left for cheaper labour abroad or better tax and regulatory regimes. Globalization and technological change have combined to make it easier to move capital and jobs around the world. Creating effective ways for prosperity to take root and grow in place – not parachute in – is a more realistic ambition going forward.

I first became aware of community wealth building in 2012 when I attended a New Economy Coalition conference. A session led by two people associated with community-wealth-building work in Cleveland left a deep impression on me. One was a staffer with the US-based

Democracy Collaborative, an organization that did significant early work to explore and develop the possibilities of this approach; the other was a worker-owner in an industrial laundry operation that served institutions anchored in Cleveland.

Two things stood out about their model. First, it was rigorously asset-focused: it looked at communities with an eye to the existing strengths that could mitigate inequities and drive prosperity. Cleveland had consistently ranked among the poorest cities in America. But its residents were entrepreneurial and eager to work and contribute. The city's largest institutions had operating budgets and needed goods and services. Money and opportunity could begin to flow locally as people made new choices about how to engage with each other. The Evergreen Cooperative Laundry was founded to unlock some of that potential. A recently announced operating partnership with Cleveland Clinic will triple the size of Evergreen Cooperative Laundry, from 50 employees to 150. The result could soon be a $12- to $14-million impact on the local economy (Rose, 2018).

Second, as an economic development strategy, community wealth building is fiercely place-based. It looks at the unique strengths and assets of a particular community and asks how those qualities can become the foundation of local prosperity – and meet unique local needs. These strategies are highly tailored to particular places. Therefore, they're more likely to result in a positive-sum game in which no one wins at someone else's expense (unlike when multiple communities compete to attract a single new plant: a zero-sum game with too few winners).

Community-wealth-building approaches leverage the combined power of individuals, community groups, unions, local businesses, governments, and anchor institutions to enable each to act in their own self-interest and collaborate to make their cities stronger, fairer, and healthier. As these groups collaborate, reservoirs of trust and familiarity grow. Everyone increases their stake in the success and well-being of the entire community, and different actors can see each other's contributions and opportunities to do better more clearly.

Although community wealth building is place-based, its ambitions are not exclusively local. As cities and towns adopt economic development strategies that prioritize equity, sustainability, and other shared priorities, they can begin to move the dial on national and global issues like inequality and climate change. People working for equitable economic development usually recognize that the struggles of their own city or town have local particularities but they're by no means isolated. Local economic hardship is driven by profound changes that are transforming our economies and the entire category of work. In Canada, a person living in poverty is more likely to work than not, meaning that employment is no longer a reliable ladder out. This development affects people in communities everywhere.

The employment landscape will continue to change, likely in ways we can't predict or even prepare for. That's why the Atkinson Foundation's preoccupation with equitable economic development is about more than jobs and employment training. It's about more than labour market research and policy development. It's about working alongside communities to build income, build assets, and – critically – build agency and democratic power for those groups who continue to be severely harmed by traditional economic thinking and strategies.

A Very Short History of Community-Wealth-Building Work

Specific community-wealth-building practices have been developed in different places over the past few decades – from an innovative social procurement policy in the city of Manchester, England, in 1984 to the first community-driven CBA, in Los Angeles in 2001. Over time, many people and organizations engaged in equitable economic development have come to see these diverse practices as tools in a larger toolkit for community wealth building.

The Los Angeles Alliance for a New Economy (LAANE) was an early architect of the CBA model in the United States. Following some successful efforts to integrate community employment needs into commercial development projects in the 1990s, LAANE became involved early in the planning of the Staples Center, a sports and entertainment arena that was completed in 2001. The organization spent nine months negotiating community benefits related to the new facility, striking a deal with the developer that is widely seen as the first example of a fully formed CBA. Local organizers later applied the model in other cities across the US, including Oakland, Seattle, San Francisco, and New York.

Persuaded by the success of CBAs in various contexts across the country, some governments and institutions in the US have adopted policies requiring major projects to include community benefits. An early test bed for the CBA model, Los Angeles has been active to this end. To name just one example: the LA County Metropolitan Transportation Authority adopted labour agreements oriented to community benefits as it embarked on a multi-year transit investment program, setting specific targets for members of historically excluded populations, people living in low-income neighbourhoods, and apprentices.

CBAs are not the only community-wealth-building tool being used in American cities. Cleveland emphasizes the procurement strategies of anchor institutions and on worker-owned businesses like the one described to me.

To the extent that governments and institutions in the US have adopted community-wealth-building policies and practices, they've generally been influenced by strong and persuasive grassroots community organizing efforts. The growth of the community wealth approach in the US has been a largely bottom-up process.

In the United Kingdom, by contrast, the spread of social-procurement and community-benefits tools has been led from the top down – primarily by foundations and governments. Toronto-based lawyer and researcher Dina Graser notes that although the earliest social procurement policy in the UK was written as far back as 1984 (the Manchester example), the practice was not adopted more broadly at the time, "in part because of uncertainty about how it would be affected by European Union regulations" (Graser, 2016).

In the early 2000s, the Scottish government, informed by a Joseph Rowntree Foundation report, began to explore the potential of new procurement approaches to maximize the social impact of infrastructure, operational, and other investments. Public entities there carried out a number of pilot projects between 2004 and 2006, and the success of these initiatives fuelled support in Scotland and beyond for the use of "social clauses" in public contracts.

Other jurisdictions, including Wales and Northern Ireland, piloted and adopted various approaches to community benefits and social procurement during the same period. Although the UK government has a social procurement framework that applies in England and parts of Wales, the 2013 Social Value Act did not set out mandatory provisions. It's generally seen as an aspirational statement as opposed to a concrete mechanism for change. Much of the strength of community-benefits and social-procurement work in England resides not at the national level but in municipalities like Birmingham and Preston. By contrast, the Scottish government's 2014 Procurement Reform Act (PRA) is mandatory, enforceable, and strategic. As Dina Graser writes, it "not only puts mandatory requirements in place, but also includes statutory guidance tying the PRA to national outcomes" (Graser, 2016).

Community-wealth-building practices in Canada have been influenced by both US (bottom-up) and UK (top-down) approaches. Canadian efforts have had a hybrid quality, with communities driving some progress and municipal and provincial governments also getting involved early and providing active leadership through policy frameworks. Community-benefits initiatives in this country have invariably proceeded with at least some government support, in contrast to the US, where communities originally had to marshal as much power as they could on their own to persuade private developers to engage with them. On the other hand, Canadian approaches have not been government-driven to the same degree that efforts in, say, Scotland have been. Scottish communities have organized to articulate their own challenges and establish their own negotiating positions, with varying degrees of engagement from governments and from public agencies like Metrolinx.

The first major urban initiative in Canada that incorporated community-benefits thinking and practice was the transformation of Toronto's Regent Park neighbourhood, a public housing development that became a mixed-use community with affordable and market-rate housing. The neighbourhood's developer made local hiring part of its lease agreement with retail tenants, requiring that 10% of new enterprises' full-time employees be locally hired. This measure created 964 jobs specifically for local residents.

Other initiatives have followed. The Vancouver Olympic Village, built for the 2010 Winter Games, included a CBA between the facility's developer, a community agency, and the City of Vancouver that led to the creation of 120 jobs for targeted inner-city residents as well as $42 million in procurement spending with inner-city businesses. Toronto's Pan Am Games used local purchasing provisions to ensure that large shares of the procurement spending related to the Games were directed to local and Canadian businesses, and to enterprises owned by members of historically excluded populations (Van Ymeren & Ditta, 2017).

The Eglinton Crosstown LRT: A Community-Benefits Landmark for Canada

The Eglinton Crosstown LRT is the most substantial community-benefits initiative in Canada to date, and it serves as a useful case study for a more detailed discussion of the mechanics of agreements that respond to community priorities related to economic inclusion.

On one side of the initiative was an entity seeking to execute a project. Although sometimes that entity is a private firm or a government, it was a private consortium in this case. The consortium's contract (with the public agency Metrolinx) was contingent on its engagement in the community-benefit process. On the other side of the deal was the Toronto Community Benefits Network, a coalition of individuals and organizations representing communities affected by the project and organized to advocate for a fairer distribution of economic opportunities. TCBN included labour stakeholders, social enterprises, workforce development groups, and a range of nonprofits. The two parties negotiated an agreement holding the developer to a specific number of training and employment commitments, as well as other benefits.

TCBN's demands reflected the specific local needs identified through the coalition's planning stage. One example: Toronto and the surrounding region receive a large share of newcomers to Canada each year. About 200,000 new immigrants arrive annually. Many have professional qualifications and experience from outside Canada, but it can be difficult for them to access opportunities in their fields. With this dynamic in mind, professional, administrative, and technical (PAT) jobs were included in the community-benefits provisions related to the Eglinton Crosstown.

Many of the jobs associated with big infrastructure and development initiatives are not in construction. Since a lot of technical groundwork has to be laid before shovels break ground, PAT jobs are typically available sooner than hands-on trades and building jobs. TCBN took this into account – along with the high proportion of newcomers who arrive in Canada with professional skills – in articulating community priorities. Other communities undergoing a CBA process would likely prioritize other groups for economic inclusion, depending on which local populations are subject to disadvantage and exclusion.

The community benefits associated with the Eglinton Crosstown LRT are mainly tied to employment. The agreement required the builder to subcontract with social enterprises and to ensure that historically excluded residents would have access to PAT jobs and would work 10% of all trade and craft hours on the project while also receiving apprenticeship opportunities (Metrolinx, 2016).

Generally speaking, what the entity in the "developer" role gets out of negotiating community benefits is community support – and in particular reduced risk of costly and time-consuming local opposition, up to and including litigation. As noted earlier, organizing for community benefits builds a reservoir of trust among different community entities – like residents, labour groups, and nonprofits. A developer who engages in good faith can also draw from that reservoir, proceeding with more confidence about maintaining community support if there are bumps on the road as the project proceeds. A community deeply entrenched against a major building project can not only cause costly delays, but can derail the initiative altogether. The cost of a CBA may be, in fact, lower than the cost of these disruptions. A US study drew this conclusion: “CBAs, despite their costs and challenges, are preferable because they frequently resolve disagreements about public project approvals in advance, thus avoiding the costly and time consuming court process” (De Barbieri, 2016). In the case of the Eglinton Crosstown LRT, litigation may not have posed an existential threat to the project, but as a public agency, Metrolinx had multiple reasons to have a productive working relationship with the community to realize shared goals.

The negotiation of community-benefit provisions, a multi-year process in this case, is just the beginning. Experience to date across many jurisdictions suggests that the efficacy of a community-benefits approach rests in the kinds of targets set, whether those targets are enforceable, the mechanisms the stakeholders develop for monitoring and enforcement, and the supports available to help developers deliver on their commitments. For instance, suppose a developer commits to reserving a certain share of trade and craft jobs for young people who have faced persistent barriers to employment. If those young workers are recruited and hired, it may take time and investment to reach a point where they’re present, engaged, contributing to the project, and building their skills. Providing the young workers with the support they need to reach that outcome is not within the skills or mandate of the builder. Other mechanisms are needed to support success – making the commitment meaningful and substantive so that the benefits of the process “stick,” not only until the conclusion of the project but well beyond.

Anchor Institutions: Sustained Social Procurement for Community Wealth Building

Although proponents of CBAs hope that the deals they negotiate will have a social impact long after the last brick has been laid, infrastructure projects are finite: when they’re built, they’re built. There is, however, an ongoing need for people to operate and maintain most new assets – an ongoing opportunity to work on economic inclusion.

Institutions that anchor any community, like hospitals, colleges, universities, and municipalities, can deliver on their public-interest mandate by leveraging their operational resources. Community wealth builders call them “anchor institutions” because their assets are rooted in a particular place. When they adopt an “anchor mission” alongside their core mission, they deliberately deploy their long-term, place-based economic power to strengthen a local community, especially neighbourhoods where people face historic and other barriers to economic opportunity.

Institutions like hospitals and municipalities are usually among a region’s biggest employers, and they are also among the largest purchasers of goods and services. They also tend to have significant fixed assets, endowments, and real estate holdings that can be used to drive economic development. They’re unlikely to leave their communities, due to some combination of their mission and history. They exist to provide services in a specific jurisdiction, and they have no motivation to move to a more favourable tax environment.

The idea that large local institutions should contribute to their communities is not a new one. As capital has become more mobile, many communities have sustained severe economic harm when employers have moved to cheaper labour markets. Institutions are sources of "sticky capital" and are increasingly becoming key actors in local strategies for sustainable economic development.

When anchor institutions adopt social procurement policies, they're typically acting in alignment with their own interests and their own missions, not with a benevolent or charitable motive. A thoughtful procurement strategy pursued in tandem with a core mission like health or education can make communities stronger by every measure. Common anchor strategies include:

- directing a greater percentage of purchasing power toward local vendors;
- hiring a greater percentage of the workforce locally;
- providing workforce training for people who need assistance in the community;
- incubating the development of new businesses, including social enterprises and nonprofits;
- leveraging real estate development to promote local retail, employer-assisted housing, and community land trusts; and
- using pension and endowment funds to invest in local job-creation strategies and to provide community venture capital for nonprofits, entrepreneurs, and employee-owned firms.

Although the potential of anchor institutions as economic drivers is considerable, it can be difficult for large institutions to embrace this role. In some cases the barrier is largely cultural. If boards and executives are intently focused on a primary mission like providing great clinical care or running an excellent library, they can be reluctant to engage in broad conversations about how they participate in the economic life of their region. In other cases the barrier is legal. Some institutions believe that the strictly governed frameworks that control their procurement choices leave them little latitude to exercise a new strategy. Evidence from a number of jurisdictions indicates that these barriers – and others – can be surmounted with knowledge, creativity, and commitment.

The City of Toronto has been an innovative leader, approaching its own procurement in new ways and supporting community benefits related to projects that affect its millions of residents. In addition to adopting a social procurement policy in 2013 and an implementation program in 2016 as part of a broader poverty-reduction strategy, Toronto was a partner in the development of the community benefits associated with the Eglinton Crosstown LRT. Toronto's social procurement program had its first full year of operation in 2017. That year, the program's supply-chain-diversity provisions resulted in 42 small-scale contracts (each under $50,000 in value) being awarded to businesses owned by Indigenous people, racialized people, or women. The policy applied to larger contracts as well, but data on those were not yet available as of this writing. As for workforce development, the city included employment opportunities for equity-seeking groups as part of 17 large-scale capital procurement projects in 2017, a figure that is set to nearly double in 2018 (Operation Budget, 2018). It's now in the process of developing a policy framework that will build community benefits into development projects with private developers.

When the City of Toronto first began developing its social procurement framework, the Atkinson Foundation could see that the city likely wasn't alone in seeking ways to use its spending power to maximize public benefit. Along with city staff, we seeded and cultivated a network of institutions dedicated to working together to craft a social procurement strategy that emphasized local purchasing, sustainability, and other shared priorities. In addition to the two founding anchors, the network (known now as AnchorTO) includes Centennial College, George Brown College, GO Transit, Humber College, Metrolinx, Ryerson University, Seneca College, the Toronto Public Library, the Toronto Transit Commission, Toronto Community Housing, United Way Toronto and York Region, the University of Toronto, the University of Toronto (Scarborough), York University, and the Ontario Trillium Foundation. Together, we're crafting a social procurement blueprint focused on two key areas – supply chain diversity and workforce development – and are optimistic about the collective impact we can have with more than $17 billion in combined annual collective procurement spending.

Canada's Community Wealth Builders

Energized by the success of CBAs, social procurement strategies by anchor institutions, and evidence from other countries, community-wealth-building practices have captured the imaginations of Canadian policy-makers and community organizers.

In 2015, Toronto City Council approved the creation of a large casino complex in the west-end neighbourhood of Rexdale. The approval was dependent on the casino developer's fulfillment of nine conditions related to community benefits, including the employment of local residents in the operation of the new venue. The city required that at least half the jobs reserved for local workers be full-time. As reported in the *Toronto Star* by two members of the TCBN, Mayor John Tory concluded a meeting with the casino's operators by emphasizing that the venture, expected to be highly profitable over its 22-year contract, would have to keep earning social licence over time: "We are here to protect the public interest ... I'll be watching very closely to see how proponents respond to need for child care, more ambitious targets, and the important question of representation" (Powell & Cartwright, 2018).

A precursor to community benefits has been operational in Toronto for many years. When developers seek permission to, for instance, build higher than existing rules allow, the city typically grants that permission in exchange for a public benefit of some kind, like the creation of a park or cash in lieu of such an amenity. Such parks are, in some sense, community benefits – but because they're produced through a government-driven process and not in response to needs articulated by residents, they differ from the kinds of community benefits achieved through the Eglinton LRT deal. The transactional elements are the same – a large business or institution grants something to a community in exchange for some form of social licence to proceed with a project – but the participatory, equity-driven, and potentially transformational elements of the best CBAs are absent. Other Ontario municipalities, including York Region, Hamilton, and Windsor, are in the process of considering similar measures (Dragicevic & Ditta, 2016).

In April of 2018, Calgary City Council directed city staff to develop recommendations for a social procurement framework. Montreal undertook a two-year pilot project from 2013 to 2015 that encouraged the local public sector (including the city) to procure goods and services from social enterprises. The initiative resulted in 27 local firms winning a combined 200 contracts worth a total of $2.5 million (Dragicevic & Ditta, 2016).

Five provinces – Nova Scotia, Quebec, Ontario, Manitoba, and British Columbia – have taken steps to incorporate social and economic benefits into their procurement practices. Yukon territory has adopted a provision that supports a strategic approach to procurement, and in particular the selection of local vendors. As of early 2018, Ontario's approach is the strongest and most comprehensive in Canada. In 2015, the provincial government enshrined a community benefits principle in the Infrastructure for Jobs and Prosperity Act declaring that:

> Infrastructure planning and investment should promote community benefits, being the supplementary social and economic benefits arising from an infrastructure project that are intended to improve the well-being of a community affected by the project, such as local job creation and training opportunities (including for apprentices, within the meaning of section 9), improvement of public space within the community, and any specific benefits identified by the community (Infrastructure for Jobs and Prosperity Act, 2015).

The passage of the act was an important moment for advocates of community benefits, especially because the Ontario government committed to a program of infrastructure spending that totalled more than $240 billion. In 2017, the province released a long-term infrastructure plan that reaffirmed its commitment to community benefits and social procurement in principle. It also set out a number of measures focused on building the province's capacity to apply these strategies effectively. The plan established a working group and set in motion five pilot projects, each of which will test and evaluate a unique, place-based CBA with distinct characteristics such as different approaches to targets. A change of government in June of 2018 leaves the fate of these initiatives uncertain. It's reasonable to expect, however, that increased awareness and expectations among a range of players connected to economic development initiatives will continue to drive community-benefits approaches.

At the federal level, a private member's bill, Bill C-344, was passed in June 2018. This measure amends the Department of Public Works and Government Services Act. It empowered the minister to require bidders on government "construction, maintenance or repair" projects to provide information about the community benefits – social, economic, or environmental – that the project would entail.

Later that month, the federal government announced that its Investing in Canada plan, a set of bilateral agreements between Infrastructure Canada and the provinces and territories, would include a community-employment-benefits requirement. The provision applies to $33 billion in major infrastructure contracts, as well as to two other funding envelopes: the new Disaster Mitigation and Adaptation Fund and the Smart Cities Challenge. According to the government's announcement, "recipients of federal funding for new major public infrastructure projects will now be asked to consider how their projects can create training and job opportunities for under-represented groups and procurement opportunities for small-to-medium sized and social enterprises" (Infrastructure Canada, 2018a). A related guidance document from Infrastructure Canada specifies that under-represented groups targeted for opportunities under the initiative include "apprentices; Indigenous peoples; women; persons with disabilities; veterans; youth; [and] recent immigrants" (Infrastructure Canada, 2018b).

Bill C-344 and the Investing in Canada plan are not the federal government's first efforts to have a positive social impact through procurement. Its Procurement Strategy for Aboriginal Business has been in force since 1996. During the strategy's first 20 years, the government awarded more than 100,000 contracts, totalling $3.3 billion in value, to Indigenous firms. In fact, Indigenous communities have led the way in the resource sector when it comes to redistributing the benefits of these projects. Stronger links and more active conversations between advocates of community-wealth-building practices in large cities and the early and current architects of impact benefit agreements on reserves and in remote communities could likely yield a wealth of insights.

The Growing Edges of Community-Wealth-Building Work

Community-wealth-building work has a lot to commend it. It "bakes" equity into economic development; it doesn't simply "sprinkle" it on. It extends the impact of both public and private investments. The very process of crafting a community-benefits strategy creates robust local coalitions that enhance a community's strength and resilience overall, making it better equipped to shape its future come what may. These benefits can be transformational, and achieving them is far from easy. For all their diversity, communities face some significant shared challenges when their leaders become community wealth builders.

Power Imbalances

If communities had the power and leverage that large institutions and corporations have, community benefits approaches would be unnecessary. The process of organizing around a CBA or social procurement initiative typically involves consolidating as much community power as possible to persuade a large, well-resourced entity like a development corporation to negotiate and partner instead of plowing ahead. Mustering a persuasive coalition – with sufficient community representation, the capacity to sit at the table where decisions are made with all parties with clear demands, and a disciplined strategy – is a major achievement. And that's just the first step.

Big Tents

The community coalitions that drive community-wealth-building work are composed of different kinds of entities: labour groups, nonprofits, residents, sometimes governments. These groups have to piece together a shared set of values, principles, and commitments to guide them through a long, complex process. Typically, each actor has to step slightly outside its usual mandate to find common ground and to partner with the others. Often they have to make sacrifices or build bridges across traditional divides; for example, labour groups and community groups can have different modes of organizing and even different interests, depending on the context. Everyone has to cede a portion of their immediate interests to help realize a larger benefit that's more widely shared.

Long Waits

It takes time to build these relationships and a sense of shared purpose and interests. The process moves no faster than the speed of trust. For people who care about income and wealth inequality, it makes obvious sense to capture a fair percentage of the enormous resources – public and private – that flow into infrastructure and development to promote economic inclusion and democratic engagement. And yet, on the Eglinton Crosstown LRT, the coalition worked intensely for three years before any community member actually started a job. It's a challenge to keep a large, diverse coalition engaged and focused for such a long time before concrete benefits appear. The importance of celebrating small wins along the way, while keeping the big picture in view, is understood by community wealth builders.

As these ideas and practices take root, collective capacity to learn from theory and experience is increasing. Actors who play different roles in the social, economic, and political system are benefiting now from the body of information, knowledge, and insight available when tackling challenges. The Atkinson Foundation is one actor among others committed to gathering and circulating this experience. But we know the power of community wealth building comes from the same source as its challenges: place.

Communities learn a lot from each other's successes and failures – and draw courage and energy from each other – but ultimately every community has to craft its own solutions, answering time and again the same core questions: By whom? With whom? To what end? And for whose benefit?

Equitable Economic Development: A Call to Action for Nonprofits

All of us want every chapter of a book or our lives to close with a forward-looking conclusion. Such a conclusion could argue that in the immediate term, it's reasonable to expect that community-wealth-building practices will continue to gain ground. They're effective, pragmatic responses to the economic challenges of our time. Major income and wealth inequality, cities and towns struggling after the departure of big industries and employers. A severely unequal economy creates especially stubborn barriers and challenges for historically excluded groups. Such a conclusion would acknowledge that some developers will be more receptive than others, that some governments will create more supportive policy environments than others, but broadly speaking, that people and organizations who believe economic development can be equitable are likely to continue finding community-wealth-building practices useful in the years ahead.

But if predictions are dubious, predictions about the future of work are even more so. So instead of sketching even the immediate future of the ideas and tools discussed in this chapter, I'll close with an argument about community-wealth-building work directed specifically to Canada's voluntary and nonprofit sector – the people who will write the next chapter of this unfinished story.

Nonprofit organizations and their leaders are civic economic actors. And as such, we wield considerable power. Nonprofits in Canada wield economic power as employers. Most have just a few staff, some have hundreds. All have power. A great many nonprofits have real estate: land and buildings and natural assets. Consider the real estate that belongs to Canadian faith-based communities alone. Foundations like Atkinson have endowments. We wield power as investors. Nonprofits of every kind and scale make procurement decisions. We wield power as consumers.

The central goal of community-wealth-building work is the recognition, reclamation, and activation of voice and agency – individually and collectively. Everyone is engaged in a process that deepens their understanding of power and an appreciation of their own. As much as we may be Davids in an economy whose Goliaths are among the most powerful in history, local economies do not exist outside of our choices and relationships. Whether we're community organizers, hospital administrators, town councillors, or engaged neighbours, we can wield the power we have strategically, in concert with others, to bring about changes we expect.

Cooperation generates even more power. Strength and resilience grow in the networks formed by social procurement strategies, the coalitions that create CBAs, and the broader circles of workers, families, and communities that benefit from these initiatives. This power is economic, but it's social and civic too. Community wealth projects offer proof of civic agency and release energy for more of the same on a wide range of issues and concerns.

Community wealth builders aim to rewrite the unfair rules of the economy to make poverty-reduction work unnecessary. In the process, they're creating the common ground needed for future generations to be safe and healthy. As academic Mary Jo Leddy reminds us, no one owns this place. We are its inhabitants. We hold a street in common, a neighbourhood, a city, a village, a vastness, she says. But what binds us as neighbours, citizens, and workers are myriad daily social, economic, and political transactions that make all of us significantly richer or poorer. Making more conscious choices about the outcome we want is a democratic right and responsibility.

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Biography

Colette Murphy, Atkinson Foundation

Colette Murphy is the CEO of the Atkinson Foundation. Colette and her team focus on strengthening movements for racial justice, decent work, and a fair economy. For more than 20 years she has been a leading voice for social and economic justice in Canada's philanthropic sector. Alongside grassroots organizers and policy innovators, Colette advocates for structural and systemic changes that centre equity and build social solidarity. Since joining Atkinson in 2014, she's been out front with several groundbreaking initiatives related to the future of workers, community wealth building and philanthro-journalism.

Community and Corporate Intersections

Chapter 24

Collaboration: When to Do It and How to Do It Right

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Few would disagree that the practice of governing in human services has changed in the past 30 years, from a context in which governments were more or less the dominant actors devising and implementing policy to one in which policy-making influence is more horizontally distributed among state and civil society agents. Although both governments and civil society organizations have for many years recognized the need to work in more collaborative ways, the increasing pressures to address complex public policy issues are raising the bar on the need to develop more effective means of coordinated, collective action. New forms of collaboration and governance patterns are emerging across a number of policy domains in Canada, including homelessness, child welfare, local economic development, immigrant settlement, urban Aboriginal issues, and even healthcare.

These new patterns of collaboration are in part the *product* of shifts in the philosophy of public management that began in the late 1980s that sought to reduce the lead role of the bureaucracy in managing public problems – a philosophy of governing known as "new public management" (NPM). But, they are also a *reaction against* NPM's market-based principles that produced increased competition and fragmentation, which failed to solve complex issues and thus proved incompatible with the demands of modern governance (Conteh & Roberge, 2013). Over the past decade, NPM has given way to an approach dubbed "new public governance" (NPG) that legitimizes the role of nonprofits, civil society, and charitable groups in policy-making and its implementation, recognizing the need for their expertise and knowledge to address complex problems.

Although systematic data are hard to come by, various observers argue that the frequency of collaborative relationships between nonprofit organizations and government has been increasing in recent years, often for the purposes of information- and resource-sharing across the sector, but also from being essentially mandated to do so by government funders to generate system coherence (Gazley & Brudney, 2007; Nichols & Doberstein, 2016; Proulx et al., 2014; Guo & Acar, 2005; La Piana, 2000). Indeed, a "collaborative advantage" is argued to have replaced the emphasis on competition that was at the centre of NPM, prompting both governments and nonprofits to create or facilitate spaces for collaborative policy-making and implementation to accomplish what any single level of government, ministry, or sector acting alone could not (Doberstein, 2016; Huxham, 1993). This presents opportunities as well as challenges for nonprofits and charitable organizations, as many lack the capacity to participate effectively. There are positive signs, however, of constructive engagement and collaboration in various social sectors in Canada.

In this context, this chapter asks the following questions: How can nonprofits and charities effectively participate in collaborations with each other and with governments? What are the pitfalls, and how can they be avoided? To answer these questions, this chapter draws on two cases from the homelessness sector in Calgary, Alberta, to illustrate the ways in which nonprofits are involved in government decision-making and policy implementation via collaborations. Based on the lessons learned from these cases, it identifies the potential benefits as well as challenges that nonprofits can anticipate as they contemplate opportunities to collaborate with each other and government, and in and across sectors that connect to their mandate. The central arguments advanced are that collaborations must be conceptualized and designed with intent, in particular matched to the goals they are to achieve, and that collaborations ought to start small, ideally among those with prior working experience and shared philosophy, and build out as necessary to achieve broader system change.

Growth of Collaborations

Collaboration is the "process by which organizations with a stake in a problem seek a mutually determined solution [by pursuing] objectives they could not achieve working alone" (Sink, 1998: 1188). Genuine collaboration typically involves mutual planning among organizations; the deliberate alignment of goals, strategies, and activities; and the sharing of risks, as well as benefits (Fosler, 2002). Those who have systematically studied why nonprofits engage in collaborations suggest that they are typically motivated by a transformational purpose or desire to increase the broader system capacity by sharing resources (Gazley, 2008; Wood & Gray, 1991). Organizations that are involved in collaborations with each other or the government most often retain independent decision-making powers related to their mandate but also agree to common rules or practices aimed at a larger set of goals established by the partnership.

Most collaborations that involve nonprofits, however, particularly in the human services sector, do not come together by those organizations alone driving the process. Most are led by government agencies, and they are only weakly collaborative in the sense of truly shared authority or resources (Gazley, 2017). As a result, many government–nonprofit collaborations cannot be described as consisting of a partnership among equals. The two case studies in this chapter of collaborations in the homelessness sector in Calgary, Alberta, however, do meet the standard of true partnerships, in that shared decision-making and resource-pooling are central features.

The process of collaboration is often described as consisting of three stages: its formation (input variables), design (process variables), and implementation (outcomes) (Almog-Bar & Schmid, 2018; Thomson & Perry, 2006; Wood & Gray, 1991). Each stage is characterized by its own distinctive organizational properties, which need to be managed for the collaboration to work effectively (Goldsmith & Eggers, 2004). In the formation stage, interested potential partners assess the motivation and commitment of others to collaborate, as well as identify the anticipated benefits (Austin & Seitanidi, 2012). The design phase focuses on the procedures involved in managing the partnership, which include defining the rules for working together, developing specific governance mechanisms, and agreeing on decision-making, problem-solving, and conflict-resolution processes (Seitanidi & Crane, 2009; Arya & Salk, 2006; Austin, 2000). The implementation phase focuses on assessing outcomes and measuring the extent to which collaborators have achieved the anticipated goals of the partnership, including the improvement of their clients' well-being, more efficient use of resources, changes in service programs, and program innovation (Almog-Bar & Schmid, 2018).

Purported Benefits and Risks

Much of the literature on collaborations is positioned normatively in favour of them, emphasizing their ability to solve problems more effectively while allowing partners to learn from each other. A smaller, but growing, critique cautions that the benefits may not always materialize and, even if they do, that there are potential shortcomings or challenges to collaboration that organizations ought to anticipate.

In terms of the benefits that may accrue to nonprofits, particularly those in human service domains, the so-called collaborative advantage is among the most alluring. Advanced principally by Huxham (1993), the collaborative advantage is characterized by actions and achievements not possible by one agency or organization working alone. This has been described as a "synergistic effect" where partners observe greater effectiveness from their activities than they would gain acting alone (Kooiman, 2000: 150; Kouwenhoven, 1993: 120). Thus collaborations may help to address shared problems more effectively (Gazley & Brudney, 2007), possibly mitigate against disputes in the sector (Gray, 1989), and build a stronger sense of community (Snavely & Tracy, 2000). And there are potential benefits to individual organizations, including cost savings, organizational learning, and the diffusion of risk (Bamford, Gomes-Casseres, & Robinson, 2003; Buono, 2003; Linden, 2002).

Gazley and Brudney (2007) surveyed hundreds of nonprofits in the US state of Georgia about their experiences with collaborations with each other and with governments; they found that positive outcomes are "frequent and shared by most organizations" (410). Among the top benefits noted by respondents were service improvements and increased citizen satisfaction and trust in government. Nonprofits see the benefits mainly as a tool for achieving their mission through influencing public policy, while for government the main benefits were to enable them to attain goals that they could not achieve on their own (Almog-Bar & Schmid, 2018: 11). Yet collaborations do not always bring the same or equal benefits to all participants, and multiple problems have been well documented (Peters, 1998). These problems can often be avoided, however, primarily by ensuring the mutuality of interests and opportunities for both parties to gain by the partnership.

The most significant potential problems of inter-organizational cooperative efforts are mission drift, the possible loss of institutional autonomy or public accountability, co-optation of actors, the difficulty in evaluating results (compared to a single organization's efforts), and the expenditure of considerable institutional time and resources in supporting collaborative activities (Gray, 2003; Shaw, 2003; Ferris, 1993; Grønbjerg, 1990). Gazley and Brudney (2007) also point to both the commitment of organizational resources to planning and maintaining inter-organizational relationships and the potential accountability challenges. Interestingly, when surveyed, nonprofit executives generally reveal stronger negativity toward inter-sectoral partnerships than do their counterparts in the public sector, who tend to view them overwhelmingly positively (Gazley & Brudney 2007). Proulx et al. (2014) also warn that collaborating organizations risk their reputations, lose some control over their activities, and are often involved in unequal exchanges where one partner must provide more resources than the other (see also Snavely & Tracy, 2002), which can undermine trust and jeopardize organizations' survival.

And not all collaborations are created equal, of course. Some collaborations are with just one other government or nonprofit organization; others have several or many collaborators. Gazley and Brudney (2007) found in their survey that respondents who have worked in larger and more complex partnerships are most likely to identify potential problems regarding the quality of the relationship or a loss of other resources. Finally, and critically important, is that many organizations will find their missions incompatible with government activities; indeed, some organizations are created in opposition to government policy. Assuming that all nonprofit organizations desire a partnership with government would mistake the historical role of the nonprofit sector more generally. There are other reasons, mandate questions aside, for a nonprofit to not engage with government in collaborative efforts, including the lack of capacity – both staff resources and time – and that various objectives of organizations are not compatible with partnering.

With the potential benefits and pitfalls of collaborative activity among nonprofits and governments elaborated, the cases of collaboration in homelessness services in Calgary can help illustrate the tensions inherent in this work and provide key lessons about collaborations in practice.

Case Studies of Collaborations in Homelessness Services in Calgary, Alberta

The Government of Canada's Reaching Home: Canada's Homelessness Strategy is premised on organizations forming collaborations (of varying size and complexity) in order to obtain funding from the federally funded, but community-administered, program. Further, the program structurally mandates the creation, in each eligible city and community, of a "community advisory board" (CAB), which typically consists of civil society and nonprofit leadership to devise a locally defined homelessness strategy (though within constraints set by the Government of Canada). The justification for the inclusion of civil society actors in the governance of this program is that generally they are more connected to the issues on the ground than public servants, and can thus offer a diversity of lived experience, information, interpretations, priorities, and perspectives about what works and is worthwhile in terms of policy (Head, 2008; Edelenbos & Klijn, 2006). The issue of homelessness in Canada in recent years has thus been nearly entirely subsumed by rhetoric (and government mandates) surrounding collaboration among the many nonprofit organizations that receive government and charitable funds to provide housing and services.

This chapter zooms in on two examples of collaboration from Calgary, one stemming from top-down, government-mandated collaboration and the second a bottom-up process of nonprofits voluntarily working together. This research is documented in full in Doberstein (2016), with comparative analysis of similar collaborations in Vancouver and Toronto, which involved extended participant observation of collaborative activities and 70 interviews with key players in nonprofit and government agencies from 2011 to 2015.

The Calgary Homeless Foundation, which is the delegated authority for federal and provincial funding in the city, requires collaboration among housing providers to facilitate a system of coordinated access for those seeking subsidized housing. The Safe Communities Opportunity and Resource Centre (SORCe) emerged from the efforts of nonprofits themselves to coordinate the activity of the various agencies that provide an array of services associated with housing needs, such as drop-in centres, employment services, detox programs, and counselling. Both illustrate the demonstrable benefits that arise from collaborative efforts, in direct contrast to what was transpiring prior to their existence, but also that nonprofit participants face some distinct challenges navigating these efforts.

Case Study: Coordinated Access and Assessment (CAA)

Calgary was one of the first major cities in Canada to institutionalize a comprehensive, coordinated system of assessment and access to housing, though it was the last among cities in Alberta, in part because of the larger scale of homelessness and complexity in Calgary. As a central part of the strategy around systems-planning involving sectors connected to homelessness, the Calgary Homeless Foundation (CHF) devised and implemented a system of coordinated access and assessment (CAA) for subsidized and supportive housing in late

2013. The purpose of CAA is "to facilitate a standardized process of assessment and centralized point of entry to the Housing First programs to address homelessness in Calgary" (CHF, 2013). It is designed as a triaging model to meet the needs of the most vulnerable first, as well as a diversion mechanism to reduce unnecessary new entries in the homelessness system.

A CAA system aims to solve a number of problems in the housing and homelessness service sector. The first problem is that it is very difficult to measure how clients are being served across the various housing programs in the city without a mechanism to track their experience. Without tracking data from all housing and service providers, there was limited accountability among agencies for the programs they offer. The second problem that CAA aims to solve is the temptation among agencies to "skim the cream," selecting clients who are less vulnerable and thus more easily served, leaving the most chronically homeless underserved. Third, in the absence of CAA – when agencies have their own assessment procedures and independent waitlists – there is limited information on what housing programs and services the client has used in the past that were perhaps not appropriate for their experience; this is inefficient for both the clients and the agencies. CAA attempts to standardize data collection for those seeking housing to better match acuity and needs to specific housing programs, thus helping people in desperate need of housing and support services to move successfully through the system faster (CHF, 2013).

CAA has been implemented in Calgary under the leadership of the CHF, which by virtue of its funder status (mainly from provincial and federal spending programs, and a smaller portion from charitable funds) is able to shift the behaviour of agencies that receive their funds for Housing First programs. All CHF-funded agencies that offer housing must participate in CAA as part of their service contracts. While there was consultation on implementation, the decision to move toward CAA was controversial among some segments of the sector, in part because it demands significant time investment from agencies and its success depends entirely on actual housing units being available in which to place clients – historically a key limiting factor in big cities.[1] That said, a system of coordinated access and assessment was an objective specified in the original 10-year plan from the CHF, published in 2008, beginning first with agencies shifting to a standardized "homeless management information system" (HMIS) in 2011, with the clearly defined goal to leverage HMIS to move toward coordinated intake and assessment in Phase 2, a key community-derived priority (CHF, 2011).

CAA hinges on the use of standardized means to assess the acuity of clients seeking housing, and for this CHF demands that agencies use a standard assessment tool to collect self-reported information on the client regarding their needs and vulnerabilities – the same tool in use in Toronto. The focus is on serving those with the most acute needs first and accurately matching the client to appropriate resources. A client must complete an assessment to be entered into consideration by one of the three placement committees of CAA – adults, youth, and family – which meet weekly to place clients in available housing programs. The placement committees are co-chaired by a CAA coordinator funded by CHF and a CHF representative and are principally constituted by staff representatives from the relevant nonprofit housing agencies funded by CHF; they decide collectively who among the client list will be matched to available and appropriate housing units and program spots. Thus, at the program level, there are small collaboratives of agencies that collectively problem-solve and deliberate over the appropriate placement of clients in housing programs.

What are the key lessons that have emerged from this collaboration, both the benefits and pitfalls experienced by those involved? One key lesson is that resistance to government-mandated collaboration among nonprofit agencies delivering services can be mitigated by providing agencies latitude to shape the nature of the collaboration, and retaining a key decision-making role for them within it. This not only signals to nonprofits that the funders take their expertise and experience seriously, but also brings them to the table to realize spillover benefits of collaboration. For example, the added benefit of CAA, according to one nonprofit respondent I interviewed, is clear: "All the players trying to end homelessness who offer housing sit at the same table and look at this database and work together."[2] Placement committees represent not only an opportunity to place clients in appropriate housing, but also by meeting weekly, agencies are able to maintain a real-time database of the status of the clients waiting for housing and routinely explore the opportunities outside of the CAA system for housing and services.

My observations of the placement committees in action in 2015 confirmed that agencies are open to resource exchange and partnerships to fit a client's needs, demonstrating an impressive problem-solving dynamic in the context of extraordinarily scarce resources. When interviewed, most involved agencies reported efficiency gains with respect to assessment and spoke positively about the more "objective" and accountable method by which clients are placed into housing. It is important to understand as well that the information collected on clients is used not just for placement. It is also used to understand where the gaps in the system are (in a quantifiable, non-anecdotal way), which can be used to demonstrate investment need to senior levels of government. Most involved with CAA would agree with the sentiment offered by one respondent: "I think it [does] do a better job of identifying gaps in services to the homeless population."[3]

Despite these key lessons emerging from interviewing many of those involved, there remain a number of limitations to this type of collaboration that serve lessons for nonprofits. The first is that this is fundamentally collaborative *coordination* of existing services, and while this may provide efficiency gains at the margins, it cannot itself solve problems like homelessness that are fundamentally shaped by scarce resources. That is, CAA merely generates a single, long list of housing waitlists, which is ineffective without any major new investments in actual housing units. In the four placement committee meetings I observed, there were no more than a handful of openings in each – and *very* long lists of clients in need – and in one of the meetings there were no housing openings into which to place a client. This dynamic was also observed by Norman and Pauly (2016), who evaluated the Centralized Access to Supported Housing (CASH) program in Victoria, BC. In these cases, the sophistication of the CAA process is undermined by the lack of capacity in the social housing system. This can generate frustration among nonprofit participants if their expectations of CAA are misaligned with its core purpose, which is to systematize a process of housing placement previously conducted independently by each agency.

Yet on the other hand, another respondent in Calgary says, "At first I was really against [CAA]. Now I find it's nice in the sense that when somebody's homeless you don't have to call 10 different programs to try to get them on a waitlist. So there's a lot less of that, making calls and checking in all the time," which speaks to the efficiency gains but not the outcome gains.[4] CHF was not surprised that CAA implementation was met nearly instantly with a lack of affordable- and supportive-housing vacancies and resistance from some community partners, despite what some in the community suggest. In early CAA planning documents, CHF officials were clear that "this will not solve the bottleneck issue (more need for housing than there is space). However, this will help to manage waitlists, triage as best we can, identify gaps, information to advocate for more funding, lack of housing in the city" (CHF, 2013).

So perhaps the most important lesson, particularly for funder-convened collaborations among nonprofits, is that there must be clarity on the purpose of the collaboration and efforts to persuade and demonstrate to nonprofits that there will be collective and individual agency benefits to joint work.

Case Study: Safe Communities Opportunity and Resource Centre (SORCe)

SORCe (previously abbreviated as SCORCe) launched in June 2013 in Calgary and has a different origin story from CAA in that it was driven by the nonprofit agencies themselves. In response to an expansive, though largely uncoordinated, set of homeless-serving agencies in Calgary, in 2012 leaders within organizations and agencies dealing with the homeless began to brainstorm how the system could be better coordinated at the organizational level. While the CAA system, discussed earlier, coordinates housing programs, there was no mechanism to coordinate the activity of all the other agencies that provide an array of services associated with housing needs such as drop-in centres, employment services, detox programs, counselling, and the like. Emerging from these discussions was the recognition that "an over-arching mechanism was needed to coordinate the efforts of all the agencies. This grassroots, community, collaborative approach to mobilizing existing resources and relationships was SCORCe" (SORCe, 2014).

SORCe, located in the downtown core of Calgary, serves as a centralized referral point to programs and services offered in the community. While it operates a centralized site of referral, it is the product of grassroots organizing and collaboration among agencies, rather than a top-down forced marriage by a senior government or CHF. SORCe is unique because it has no external funding; its (prime real estate) institutional space is donated by the Calgary Police Service (CPS) out of the CPS's own budget and is staffed, remarkably, by a rotating set of employees from 17 homeless-serving agencies. The conception of SORCe was, perhaps surprisingly, driven by the CPS, and in particular Inspector Curtis Olson, under the leadership of former police chief Rick Hanson. CPS and city bylaw enforcement officers grew increasingly frustrated by the ineffectiveness of dealing with the homeless population via ticketing and enforcement and "wished we could have somewhere we could take them and introduce them to people that might be able to help them."[5] Hanson received praise from a number of respondents interviewed; they cited major shifts in the past few years from the CPS in terms of their interactions with homeless people. One remarked that "[Hanson] does not want his officers dealing with people who are sick, who have addictions and mental health and need to be connected with resources and supports and not arrested and cycling in and out of jail, which is fantastic."[6] And while there certainly remain officers who prefer traditional enforcement, and not acting as brokers for services, the thinking of Chief Hanson and Inspector Olson has filtered down to the ground level. For example, rather than issue a ticket for failing to pay the transit fare, transit police may talk with the person, learn they have just been evicted and have nowhere to go, and take them to SORCe so they can connect to services.

The philosophy behind SORCe represents a conceptual shift from a "program-centred" thinking to a "client-centred" thinking, which means that "individuals seeking services are not 'your client' and 'my client' [but] it's everybody's client who we're trying to find what [program] is the best fit [for]."[7] The idea is to provide a single point of access for individuals in need, staffed by individuals specially trained with knowledge of the service landscape to make appropriate referrals that will result in a simpler experience for the client and faster access to services. The initial step for most individuals upon their arrival at SORCe is an assessment of need, which may proceed to a formal assessment – the mechanism of CAA to receive housing funded by CHF. Also, an individual may receive targeted referrals to non-CHF housing opportunities, mental health and addiction treatment, employment and training, as well as transportation as required. In some cases, staff working at SORCe will be able to begin service enrollment immediately and provide transport, rather than rely on a cold referral and hope the person goes to the agency down the road.[8] In 2016, the latest year for which data are publicly available, SORCe helped 4,955 clients and in 2017 received a Community Justice Award from the Alberta Justice and Solicitor General, who cited SORCe as "an innovative collaboration of community-based organizations working together to support vulnerable Calgarians … [and] on the front line of ending homelessness in Calgary" (Alberta Justice and Solicitor General, 2017: 14).

SORCe thus represents an innovative, grassroots effort to collaborate at the organizational level to generate more system cohesion and coordination. But there are challenges associated with this type of collaboration. First, this was driven by an unlikely policy entrepreneur (the former police chief) who had unique outside perspective of the work of the sector and was in a position to be a first-mover in terms of broader change, which garnered trust among those in the sector. As such, it is not clear that this collaboration would have occurred in the absence of critical convening leadership. It is apparent when interviewing SORCe-participating agencies that the police, bylaw, and transit enforcement changes would need to come in concert with systemic changes to service coordination to assist them. Thus, even so-called bottom-up collaboratives need conveners who enjoy broad respect in the sector – and especially in this case, a commitment of convening resources in the location of SORCe – to get up and running.

Second, practically speaking, with no external funding SORCe's hours of operation are limited to regular working hours from Monday to Friday, which, while convenient for staff, may not align with homeless people's service needs and patterns.[9] This is a challenge to an unfunded collaboration because extending or modifying these service hours is very difficult, as it involves diverting even more staff resources away from previously agency-specific work. Few agencies may be able to justify this. Also, SORCe primarily serves to coordinate existing services, which means that it is inherently limited by the capacity of the system, without any independent mechanism to initiate broader change, much like CAA. Although this last criticism is somewhat belied by a recent expansion at SORCe to add a 27-person mental health team in the same location, funded by Alberta Health Services, after demonstrating that "clients at SCORCe will often be referred to a psychiatrist or a physician but for a variety of reasons don't follow through with treatment," and thus more collaborative partners were needed to close the gap in services for the target population.[10]

All that said, it is an important example of cooperation that aims to operate a central window of entry to services – and a good reminder, despite the challenges associated with it, that a program or approach should not be condemned if it fails to solve the homelessness problem wholly on its own.

What Nonprofits Need to Know about Collaborations

Despite the enthusiasm for the concept of "collaborative advantage" in the literature and in professional practice, this advantage is too often not realized because of the complexities of managing collaborative efforts (Huxham, 1993). Nonprofits contemplating engaging in partnership or collaborative efforts with each other or government must, on one hand, be convinced that collaboration is essential to the fundamental objectives of their work. On the other hand, they need to come into these efforts with a clear understanding of the challenges of doing this kind of work successfully.

There are several takeaway messages from the literature and these two case studies of homeless-serving agencies in Calgary. The first is that it is critical that trust among agencies and government is cultivated before (and then, of course, during) collaborations. In the case of Calgary, prior to the development of these concrete collaborations among agencies in 2013, the community had been incrementally organizing toward system approaches for five years prior, with sustained efforts to bring the nonprofit community together to identify policy priorities, and even prior to that, the Government of Canada's Reaching Home strategy had been structurally uniting these groups toward a collaborative orientation with regard to planning. Prior joint experience is an essential part of successful future concrete collaborations, and thus nonprofits should start with small efforts to exchange resources and build out from there (Lambright, Mischen, & Laramee, 2010). This can be done through a process of socialization, which includes workshops, collaborative work, and conferences (Almog-Bar & Schmid, 2018). In these settings, staff and leadership are exposed to other agencies, begin to think about new goals and work procedures, and better understand and articulate their role in a broader system. With scarce and precarious funding from government and charitable foundations, nonprofit service agencies exist in a competitive environment, so it takes time and effort to reposition agencies as partners toward the same goal, rather than competitors. The decision to cooperate with others is both cognitive and psychological, and much research suggests that trust levels are likely to be shaped by prior experiences (Gazley, 2008; Huxham & Vangen, 2005; Thomson & Perry, 2006). Once nonprofit leadership and staff understand the potential that lies in collaboration, blurring boundaries and giving up autonomy might not seem so intimidating (Proulx et al., 2014).

The second takeaway is that the size of the collaboration must also be thoughtfully constructed and only as large as is needed to achieve the objectives of the partnership. SORCe, for example, started with the most prominent 14 housing and service agencies in Calgary. After the first few years of activity, additional agencies joined the collaborative, and more are expected in the future, allowing the group to grow incrementally and as need reveals. For example, recall that a large mental health team has now joined the collaborative in direct response to the effects of that missing link in the service system SORCe was offering. If the collaborative had started at more than 30 partners, it almost certainly would have faced more difficulty than with an incremental ratcheting up of the scope of their activity. Observers of collaborations caution that the size and nature of the partnership can influence its outcomes, and while larger and more complex partnerships can be harder to manage, they can bring essential institutional resources, and even political support (Gazley, 2010). Thus it is a delicate balance between constructing an appropriately sized collaboration for the goals of the partnership and including a broader set of actors to effect larger systems of change, but the focus in the early days ought to be to bring together nonprofits and actors with a history of working together and shared philosophies and mandates.

Third, agencies have to be prepared to adjust elements of their activities in order to make the collaboration more than simply an aggregation of their individual efforts. The promise of the collaborative advantage is achieving goals not possible without the collaboration. But this can be difficult for some agencies with long histories and clearly established mandates and practices. One participant from Calgary's CAA collaborative suggested that with CAA, "you have to be willing to say doing better means that you [previously] did something that wasn't as good … and that you have to let go of what [you were] doing." This implies putting individual brand or reputation aside in this context. But it can also mean sharing your best practice or innovation that others are unfamiliar with (or may reject based on ignorance or skepticism). Dressler (2016), who also studied Calgary's CAA, noted that there is a "delicate balance of program autonomy and collective decision making that must be maintained to ensure the active and willing participation and engagement of program staff" (25). And even in a similar collaborative effort in Victoria, participants claimed that "it's created a much-improved relationship between housing providers because they're all part of the selection process" and that "the relationship between the housing providers and the [funding] health authority has strengthened" (Norman & Pauly, 2016: 46).

Conclusion

Human services are requiring greater collaboration among nonprofits and government. This is especially true in the context of homelessness, in part because it is a classic case of a field in which nonprofits have historically played a dominant role in service provision but are increasingly involved with government in relationships and collaborations that extend far beyond their traditional contractual relationships and into policy development, system planning, and coordination. The two Calgary cases – coordinated access and assessment (CAA) and Safe Communities Opportunity and Resource Centre (SORCe) – reveal that collaborations are demanding on the state and civil society. And while they can at times be frustrating for those involved and require careful design and management, it is also clear that traditional institutions of policy-making, driven by traditional government contractual relationships alone, are simply not up to the task of ending homelessness.

The cases provide several important lessons for nonprofits regarding what to expect and manage when devising or participating in a collaborative effort as informed by the experiences in Calgary. First, the convener of collaborations, whether it is a government or a civil society actor, must provide clarity on the purpose of the collaboration and make efforts to persuade and demonstrate to nonprofits that there will be collective and individual agency benefits to joint work. The second lesson is the importance of cultivating trust from past experience, starting small and building to an ideal size, depending on objectives. And third, nonprofits must be prepared to change some long-established practices toward the pursuit of system-wide, not just organizational, goals.

While homelessness was examined in the chapter, there are a growing number of policy domains in Canada characterized by such collaborative patterns, including child welfare, local economic development, immigrant settlement, urban Indigenous issues, and even healthcare, each with their own nonprofit histories, dynamics, and pressures, that will shape how collaborations in those sectors develop and thrive.

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Notes

[1] Confidential interview, 2014.

[2] Confidential interview, 2014.

[3] Confidential interview, 2014.

[4] Confidential interview, 2014.

[5] Jody St. Pierre, personal interview, April 25, 2014.

[6] Ibid.

[7] Confidential interview, 2014.

[8] The Calgary Public Library has also partnered with SORCe to create a new "restricted" library card that can be used by anyone without a fixed address, allowing such individuals access to computers, as well as training programs and workshops that the library offers free of charge, like resumé writing, interviewing skills, and budgeting (confidential interview, 2014).

[9] Confidential interview, 2014.

[10] "Calgary police host new addictions clinic for city's homeless." CBC News. May 31, 2017. http://www.cbc.ca/news/canada/calgary/calgary-homeless-addictions-clinic-1.4138754

Biography

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Community and Corporate Intersections

Chapter 25

Indigenous Peoples, Communities, and the Canadian Charitable Sector

Shereen Munshi and Elisa Levi
The Circle on Philanthropy and Aboriginal Peoples in Canada

> *We [the Canadian charitable sector] are committed to supporting the fulfilment of the vision of [Indigenous] peoples, to building a fairer and more just country, and to the recommendations that will be outlined by the findings of the Truth and Reconciliation Commission. We will work, each in our own way, and together, towards achieving the goal of reconciliation and, in the end, a much stronger, more inclusive Canada.*
>
> – The Philanthropic Community's Declaration of Action

Preface: Key Terms

All my relations: An acknowledgement of one's personal place in the universe as well as a recognition of the place of others and other living things. "All my relations" is a phrase used to acknowledge those who came before us and those who will come after us – to understand that everything that is, is connected and that connection sustains us. "All my relations" as a principle sees interconnection and does not recognize the "other" as less than or separate from.

Indigenous ways of knowing: Indigenous Peoples' creation stories, ceremonies, and ways are deeply rooted in the land from which they originate. While there are differences, as different as the geographical topography of Canada, there are similarities and shared principles. This chapter is grounded in Indigenous ways of knowing: technical information, innovations, and practices developed from centuries of experience. Indigenous ways of knowing tend to be collectively owned and can be transmitted through stories, songs, folklore, proverbs, rituals, customary laws, languages, agricultural practices, and resource collection.

Reciprocity: The practice of exchanging things with others for mutual benefit, with recognition of what is received and what is provided. Sometimes demonstrated by intentional practices of shared appreciation: the offering of tobacco ties in a Sun Dance, a hunter asking permission from an animal before a kill, a healer placing tobacco on the earth before picking a plant. Policy and framework demonstrations of reciprocity are built into the Treaty relationship, which is at the foundation of Canada's existence: history tells us that it was Indigenous people who insisted that the Treaty relationship with settlers would be one of shared lands, of living together in peaceful co-existence and mutual support (Jamieson, 2014).

Settler philanthropy: Often characterized as traditional, Eurocentric, or Western, settler philanthropy refers to the redistribution of accumulated wealth with the intention of goodwill – an act done or gift made for humanitarian purposes. Missing from the narrative of settler philanthropy are the stories and practices behind wealth accumulated on taken land and on the backs of Indigenous Peoples. It is important to acknowledge the legacy of harm and entitlement attached to philanthropic dollars to build relationships of transparency and trust.

Financial trusts: Financial trusts are established from a financial and legal framework to hold and manage funds received from settlement agreements, impact-benefit agreements, and business activities. Some governing trusts invest resources back into the community, with Indigenous communities leading the decision-making as funders. Other funds are invested for the long-term; the challenge faced by Indigenous leaders is how to responsibly align investment strategies and post-colonial funding strategies and invest their trust assets in ways that respect their broader values and their communities' long-term-development aspirations (Campbell & Sevestre, 2018).

Reconciliation: Following the work of the Truth and Reconciliation Commission (2015), "reconciliation" became a widely used umbrella term that refers to the learning of truths, an understanding of the legacy of shared history, and the building and maintaining of better relationships between Indigenous and non-Indigenous peoples, based on atonement and action. It is important to note the value of reconciliation-focused work while recognizing that the word "reconciliation" has been co-opted in today's social and political context. As a result, the word and its intention and meaning have been diluted for many people, communities, and grassroots organizers. The Circle on Philanthropy and Aboriginal Peoples in Canada (The Circle) understands the work of reconciliation not as a singular definition but rather as a way of being and working to increase justice, access, and equity for Indigenous Peoples.

Since the release of the *Truth and Reconciliation Commission's Final Report* in 2015, an energized commitment has emerged within the Canadian charitable sector to develop meaningful relations with Indigenous Peoples, communities, and organizations through reconciliation-focused work. The common thread of philanthropy in this era of reconciliation is the intention to foster a space for foundations, charities, and nonprofits to work alongside Indigenous-led organizations, communities, and grassroots movements. This goal requires learning about Indigenous values, addressing systems of power and rethinking public policies and the practices of philanthropy.

This learning journey must begin with the acknowledgement that Indigenous communities are not charity cases, nor is philanthropy a new concept – though the word itself may not be commonly used in Indigenous communities. Philanthropy, in the sense of caring for our fellow human beings, is a deeply held principle of Indigenous Peoples. To move forward in an atmosphere of understanding, dignity, and respect toward the shared goal of reconciliation, the Canadian charitable sector must move away from the one-way-relationship system – a wealthy benefactor giving to a deserving cause. The work of reconciliation requires co-created, collaborative, multilateral relationships in which all parties are committed to learning and growing. Through this adapted form of philanthropy, the Canadian charitable sector can work alongside Indigenous Peoples to build communities and address challenges such as inclusion, cultural and language revitalization, health, housing, education, employment, and climate change.

This chapter seeks to activate this learning journey. We provide a timeline of philanthropic acts pre- and post-colonization, share the wisdom of Indigenous leaders, and highlight challenges and opportunities for the Canadian charitable sector by focusing on organizations that have changed the dynamics and ways in which the charitable sector aligns itself with Indigenous communities and organizations.

Adapting Worldviews

The knowledge and intention of values like reciprocity can be found in the respective languages of Indigenous Peoples. A word like philanthropy, however, is often unfamiliar and can be difficult to translate. This example of Indigenous and settler worldviews colliding can be used to understand the revision that is required of the Canadian charitable sector to better work alongside Indigenous Peoples.

In *Walking Together: First Nations, Métis and Inuit Perspectives in Curriculum*, Dr. Leroy Little Bear demonstrates the challenges of integrating Indigenous philosophy with settler philosophy. He assesses the settler value system as being linear and singular – static and objective. He uses the concept of time to explain this linearity: "time begins somewhere way back there and follows a linear progression from A to B to C to D" (Little Bear, 2000). Little Bear identifies how linearity manifests in social organizations that are hierarchical in terms of both structure and power; the concept of time can be equated to the singular, static, and linear processes of the charitable system. Most importantly, the settler worldview sees philanthropy as a one-way transaction-based system – a social organization giving wealth or services to those in need, whereas in an Indigenous worldview, the sharers receive as much as they give.

As Little Bear highlights, Indigenous philosophy is rooted in the understanding that existence consists of energy. He explains that "all things are animate, imbued with spirit, and are in constant motion. In this realm of energy and spirit, interrelationships between all entities are of paramount importance […] the idea of all things being in constant motion or flux leads to a holistic and cyclical view of the world" (Little Bear, 2000). Under this cyclical worldview, acts of philanthropy are best embodied by Indigenous reciprocity, a concept that is an integral part of many Indigenous worldviews.

Colonialization and the Charitable Sector in Canada

It is natural in many Indigenous cultures to pay homage to location, ancestry, and creation stories when meeting someone new. Therefore, it is important to position a timeline. Although significantly summarized, this is the story of Canada's charitable sector.

In the 480 years since the first written account of a philanthropic act in what would become Canada – the gift of medicine from Indigenous Peoples that allowed members of the Cartier expedition of 1535/1536 to survive – the history is now painfully clear. "Cultural genocide" was the term used by the Truth and Reconciliation Commission to describe systematic attempts to contain, destroy, and absorb Indigenous Peoples into "Canadian" culture (Brascoupé Peters et al., 2016).

There is a complex history of philanthropy in relation to Indigenous Peoples in Canada, but the six-year residential-school inquiry provides a short overview: it found that the government-funded, church-run residential schools were the key to a policy of cultural genocide designed to "kill the Indian in the child." It is an essential step for nonprofit organizations to look back and take the time to think about the charitable sector's role in the Indian Residential Schools system.

Going back to the creation of "settler philanthropy," as it is known, one must recognize that endowments in philanthropic organizations were created through the accumulation of wealth. The early (and continuing) wealth in Canada was produced by resource extraction, agricultural production, settlement, and transportation on disputed land. Land and resource extraction directly impacted the practical needs of Indigenous communities and created impediments to self-sufficiency. Settler philanthropy benefited from practices, movements, and actions that negatively affected Indigenous Peoples.

Wealth creation inhibited Indigenous self-determination. The UN Declaration on the Rights of Indigenous Peoples (UNDRIP), which delineates the rights of indigenous Peoples, explicitly addresses a key issue of self-determination: the obligation of governments and corporations to obtain the free, prior, and informed consent (FPIC) of Indigenous communities for any project on their land, "particularly in connection with the development, utilization, or exploitation of mineral, water or other resources" (UNDRIP, 2017). The principle of free, prior, and informed consent refers to the right of local communities to give or withhold their consent to projects that may affect their territories. "Free" refers to consent given voluntarily, without manipulation, intimidation, or coercion. "Prior" refers to consent that is given before the project activities start.

"Informed" implies that communities have received complete information about the project, its location, duration, costs, risks, and impacts (IFIP, 2017). At the formation stages of settler philanthropy in Canada, Indigenous Peoples did not have free, prior, and informed consent.

It is now known how and why philanthropic systems in Indigenous communities, which honoured gifts and the sharing of responsibilities, such as the Potlatch of the West Coast and the Sun Dance of the Prairies, were severed, particularly by the banning of essential cultural practices in 1884 (following the enactment of Canada's Indian Act). While Indigenous Peoples and "philanthropy" were subjugated for centuries, a renewed "Indigenous philanthropy" is emerging. As indicated by research from The Circle on Philanthropy and Aboriginal Peoples in Canada, Indigenous charities and donors are on the rise, and networks are growing to address fundamental community-defined issues. The intentions behind these renewed practices are informed by Indigenous principles and ways of being – in particular the principle of reciprocity.

Philanthropy and Reciprocity

When speaking at the International Funders for Indigenous Peoples summit in 2014, Roberta Jamieson spoke of Indigenous reciprocity and how it relates to the concept of settler philanthropy. She explained that Indigenous reciprocity is much more complex than an exchange of favours:

> Reciprocity is intended to maintain balance […] to maintain equilibrium in a relationship. With reciprocity, we feel good about giving, and we feel good about being offered a gift. We feel nourished by the transaction, both as giver–receivers and receiver–givers. When reciprocity is not practised in Indigenous philanthropy, things easily can go awry: givers feel unappreciated and resentful, receivers feel their dignity has been diminished, guilty about not having been able to give back. The loss of balance is felt in our hearts (Jamieson, 2014).

Jamieson went on to explain that to move philanthropy into reciprocity, a relationship must be built for the purpose of cultivating the relationship itself. Unlike numerous forms of settler-based philanthropy, the transfer of funds cannot develop a relationship or override natural components of good relations: human interaction, transparency, trust, and compliance. Through the process of intentional relationship-building, settler philanthropy has the potential to develop a consciousness of reciprocity through interconnectedness. This entails working with an open mind to unconventional approaches, engaging in courage, conviction, collaboration, and confidence.

To further deepen understanding of Indigenous reciprocity, Jamieson shares the wisdom of transgenerational reciprocity, as embodied by the Seventh Generation, which is integral to the concept of reciprocity:

> As is true of many Indigenous peoples, my own people, the Mohawks of the Six Nations of the Grand River Territory, are instructed that in living our lives and making our decisions for the future, we must focus our attention not on ourselves, not on our children, or even our grandchildren, but rather on the Seventh

> Generation – those yet to be born, children whose faces are still coming towards us. The Seventh Generation are our great-grandchildren's great-grandchildren. The Seventh Generation is not a figurative abstraction: it consists of real human beings not yet born – the people who will call us "their ancestors." They have every right to expect that we will realize the opportunity to put our minds together to improve life for our children.

Jamieson shares that a focus on the Seventh Generation has been a powerful force in her own life and explains how it teaches us about the opportunity and responsibility to create change:

> It has taught me that I do not live alone in this world: we walk with our past, our present, and our common future. It has taught me to seek a longer view whenever I have felt the push of impatience or the immobilization of despair. If we think of the Seventh Generation, we will be pushed to go beyond the mark, to go in new directions, to find opportunities that don't appear when we are thinking of the short term. The Seventh Generation is with us in spirit here, today. They are our future, cheering us on. We need them for our lives to have meaning. They need us to provide them with a foundation, a future which is viable and sustainable (Jamieson, 2014).

Adapting settler philanthropy to embrace Indigenous worldviews and actively practise the principle of reciprocity while holding a responsibility to the Seventh Generation has the potential to transform settler philanthropy; the challenge for the Canadian nonprofit sector is where to begin. The Truth and Reconciliation Commission and the philanthropic community's Declaration of Action are a good place to start.

Starting Points for a Transformed Philanthropy

The Truth and Reconciliation Commission

The year 2014 was a catalyst that sparked the era of reconciliation in communities, sectors, and academia from coast to coast to coast. The increased commitment is a direct result of the courage, bravery, and resilience of residential school survivors and the work of the Truth and Reconciliation Commission (TRC). The TRC's mandate is to inform all Canadians about the honest and true history of the Indian Residential Schools (IRS) system. The TRC documented the experience of First Nations, Inuit, and Métis survivors, families, and communities affected by the IRS system through a series of national gatherings, community events, and individual truth-sharing. In 2015, the TRC presented its recommendations, consisting of 94 Calls to Action that defined areas that Canadians needed to address to mend the ills resulting from Canada's colonial legacy. Although Canada's nonprofit sector is not directly addressed in the Calls to Action, they offer a valuable guide to reconciliation in areas that include child welfare, education, language and culture, health, and justice.

It is of utmost importance that staff, executives, boards of directors, and volunteers working in Canada's nonprofit sector read the TRC Calls to Action in full. Knowledge of them is the first step to developing areas of focus and approaching reconciliation-focused work with intention and mindfulness.

The Philanthropic Community's Declaration of Action

Coinciding with the TRC closing event, a group of Canada's philanthropic organizations (including The Circle, Community Foundations of Canada, Philanthropic Foundations Canada, the Martin Family Initiative, and the Counselling Foundation of Canada) presented The Philanthropic Community's Declaration of Action as a commitment to ensure that positive action on reconciliation will continue. Directly addressed to Canada's nonprofit sector, the Declaration of Action is an invitation to join in moving forward in an atmosphere of understanding, dignity, and respect toward the shared goal of reconciliation.

The declaration "is a way to acknowledge and to honour the survivors by making a commitment to listen and to learn from their experience, to act to build new relationships with Indigenous Peoples that will support their healing, to work towards reconciliation and the implementation of the spirit, intent, and content of the Truth and Reconciliation Commission's (TRC) recommendations."

The declaration is available as a framework for Canada's nonprofit sector to use. Signatories commit to:

- **Learn and remember by ...**
  - listening with respect, compassion, and empathy while reaching out to those who have given voice to the tragedy that was the Indian Residential Schools experience, understanding the cumulative impact of unresolved trauma passed from generation to generation and remembering the voices that were silenced; and
  - engaging the philanthropic community in the dialogue necessary to ensure that we do this with, and not for, Aboriginal Peoples in all their diversity.
- **Understand and acknowledge by ...**
  - learning about the history and legacy of the colonial system that imposed the Indian Residential Schools system that dispossessed and inflicted harm upon Aboriginal Peoples and their cultures, so that we can understand how to work toward the reconciliation that is needed now and into the future; and
  - recognizing the need for an ongoing commitment to support the continuation of this multigenerational journey of healing and reconciliation.
- **Participate and act by ...**
  - sharing our networks, our voices, and our resources to include and benefit Aboriginal Peoples;
  - committing to building relationships with Aboriginal Peoples and extending the reach of our efforts in both policy and practice; and
  - exploring new opportunities to support healing and reconciliation and the implementation of the spirit, intent, and content of the Truth and Reconciliation Commission's findings and recommendations.

The declaration is housed with The Circle on Philanthropy and Aboriginal Peoples in Canada (The Circle) and continues to influence Canada's nonprofit sector through reconciliation-focused work. The upholding of the commitment made by signatories of the declaration is supported by a number of Indigenous-focused organizations, including The Circle.

The Circle on Philanthropy and Aboriginal Peoples in Canada

The mandate of The Circle is to transform philanthropy and contribute to positive change within Indigenous communities by "creating spaces of learning, innovation, relationship-building, co-creation and activation" (The Circle, 2016).

The Circle is a membership-based organization that serves two spheres of membership:

- Indigenous-led organizations, communities, and grassroots movements working in unique and powerful ways with wisdom and experience to address challenges of inequity, climate change, cultural revitalization, justice, food security, policy change, and more; and
- philanthropic organizations working to adapt settler philanthropic practices to better serve Indigenous Peoples and reconciliation efforts through building relationships, creating Indigenous-focused funding models, convening opportunities for dialogue, and developing innovative approaches that challenge colonial systems of oppression.

The Circle cultivates deep and informed relationships with all members and intentionally fosters spaces for members to connect and discover opportunities for co-creation through gatherings, programming, research, social media, and meaningful dialogue. It works to increase information about Indigenous forms of philanthropy, access to opportunity for Indigenous organizations, cultural competency and capacity of philanthropic organizations, and commitment and engagement in reconciliation. In addition, The Circle seeks to foster investment in Indigenous communities and Indigenous-led initiatives.

The Circle's programming for the philanthropic sector follows a pathway to reconciliation. The pathway offers an example for organizations in Canada's nonprofit sector looking to increase their aptitude to work alongside Indigenous partners toward the shared goal of reconciliation. The pathway begins with the individual. The Circle suggests that the work of reconciliation cannot begin and stay in the professional space. It involves a willingness to be uncomfortable, to undertake personal reflection, to understand social location, and to uncover personal biases. This stage of understanding oneself leads to the unearthing of colonial themes ingrained in day-to-day life and interaction.

The next step is to learn about and engage in the neighbourhood and local community. This stage involves the development of a deepened relationship with land, territories, and community. At this stage, individuals can position themselves in relation to the full history of the land and actively seek opportunities to develop relationships with both urban and rural Indigenous people from an informed place. In the era of reconciliation, there are a number of ways to engage with local Indigenous businesses, programs, and festivals. By actively engaging on a personal and community level, one creates a foundation to bring reconciliation-focused work into the professional space. The deeper sense of understanding, respect, and relationship creates an ability to sense power dynamics, challenge systems of oppression, and create reciprocal partnerships.

It is important that Canada's nonprofit leadership create space for staff, volunteers, executives, and board members to engage in each of the steps while making them feel supported in doing so. What can be seen as abstract and time-consuming has the potential to strengthen understanding and the ability to bring one's whole self to work in a purposeful way.

Ontario Indigenous Youth Partnership Project

The ability to work from a position of awareness is key to reconciliation-focused work. New transformative models of reciprocity are emerging, such as the Ontario Indigenous Youth Partnership Project (OIYPP). OIYPP works to support Indigenous youth in Ontario to activate their projects and ideas. As an initiative *for* Indigenous youth – led *by* Indigenous youth – OIYPP is a model often considered by philanthropic organizations looking to develop Indigenous-focused granting streams. OIYPP's goal is to create a network of empowered and celebrated Indigenous youth alongside a community of individuals, organizations, and supporters who work toward shared desires for a healthy environment, social inclusivity, and strong cultural connections. OIYPP's values are ever-evolving and come from a place of discussion and unity. Every year, OIYPP's advisory committee, made up of youth and a core team from The Circle and MakeWay (formerly Tides Canada), meet for a day of in-person visualization and relationship-building.

Youth advisors are at the core of what makes OIYPP work. They are distinguished Indigenous youth who bring their own strengths to OIYPP, including their personal and professional experience. They provide insight into both the overall strategy and approach of the program and offer direct connections to the Indigenous youth community. Through OIYPP, advisors are supported in further building their skills and networks to influence the world of philanthropy.

OIYPP supporters include charitable organizations and donors who want to support and empower the creativity of Indigenous youth. Together, and as equal partners with youth advisors and the OIYPP core team, the grantmaking process is highly reflective, values-based, and inclusive. The goal is to ensure that the perspectives of Indigenous youth are central to decision-making and that no applicants get left behind. This means that when financial resources cannot be offered, other in-kind supports are available to add capacity to the project. From an after-school empowerment project for girls to cultural programming that incorporates teachings about wild rice, the diversity of youth-led projects is inspiring and demonstrates how youth are using their connections and experience to effect change for their communities.

Overall, OIYPP focuses on reciprocal learning. Funders and supporters learn from young Indigenous people about their priorities, and youth learn about the philanthropic charitable sector as empowered leaders. Ultimately, all partners build deeper relationships through dialogue and respect, providing an example of cultivating meaningful partnerships for reconciliation.

The Onaman Collective

Other Indigenous-led organizations are reconstructing forms of sharing, caring, and giving in an effort to restore original intentions.

The Onaman (pronounced ah-nah-min) Collective was formed in 2014 by Isaac Murdoch, Christi Belcourt, and Erin Konsmo. The collective finds ways to converge land-based art creation with traditional knowledge, with the ultimate goal of preserving and recovering traditional knowledge, developing traditional art skills, and creating new ways for traditional teachings in the arts to carry on within the next generations. One of the projects is Nimkii Aazhibikong, which means Village of Thunder Mountain. It's the name given by Elders to a year-round Ojibway art, culture, and language-revitalization camp being built by a community of youth, Elders, and organizers north of Elliot Lake, Ontario, within traditional Anishinaabeg territory. The goal of the camp is to create, under the guidance of Elders, a cultural resurgence of sustainable Indigenous practices through the restoration of traditional land, resource protection, and management. The collective is not funded by governments or corporations; rather, it has been financed by the sale of art, donated by Indigenous artisans, through online auctions. This initiative is unique in that it launched with long-term intentions – creating space for the next generations – and its philanthropic spirit is based in action (Onaman Collective, 2018).

The lesson for Canada's philanthropic and nonprofit sector is that initiatives such as the Onaman Collective are developing innovative paths, backward and forward, for a new philanthropy that embraces Indigenous ways of being. The sector needs to become more aware of and engage with them.

Conclusion

The *TRC Final Report* has brought about energized commitment within the Canadian charitable sector. There is abundant opportunity to develop meaningful relations with Indigenous Peoples, communities, and organizations. To foster a space for reconciliation-focused work, settler philanthropy must transform itself to include Indigenous worldviews and principles. This requires deep learning to understand Indigenous values, bring to light systems of power and oppression, and rethink policies and practices – all to realize an adapted form of philanthropy. Fundamental to this process is the need to shift the settler philanthropic paradigm, whereby one gives and the other receives, to instead stress the importance of reciprocity (Adamson, 2011). The work of reconciliation requires co-created, collaborative, multilateral relationships in which all parties are committed to learning and growing. It is only through transformed philanthropy that the Canadian charitable sector can work alongside Indigenous Peoples to build communities and address challenges brought on by legacies of colonialization, extraction, destruction, imperialism, and war.

This chapter provides an opportunity to activate a learning journey. This journey looks to the wisdom of Indigenous leaders, reveals challenges, and uncovers opportunities for the Canadian charitable sector to work alongside Indigenous Peoples, communities, and organizations. As Adamson (2011) says, "If we want to change outcomes in Indigenous communities, the first step for donors is self-reflection."

Taking the idea of self-reflection seriously, this chapter concludes with an invitation.

There is a common thread in Canada's nonprofit sector of hesitancy and fear to engage in Indigenous-focused initiatives – fear of not moving forward in a productive way, fear of the unknown. There is a substantial risk in remaining idle, however. This space of “reconciliation” can be used as an opportunity for deep reflection. For philanthropic organizations to contribute to the collective path of reconciliation, their cultures must shift on an organizational and systemic level. Change is uncomfortable, but it offers an opportunity to rethink the policies and practices of the philanthropic and nonprofit sector.

The tendencies of settler philanthropy are rooted in a scarcity mentality, based on a notion of having only so much (Sheehan, 2010). This can be linked to the understanding that if dollars and practices shift one way, it means less for everybody else. With this mindset, the way forward is expected to be risk-averse. Reconciliation calls on philanthropy to evaluate its willingness to share grant dollars, recognition, and power.

The way forward can be found in adopting a mindset of abundance and identifying that there is enough to go around. It calls for sharing on all levels: recognition, funding, capacity, decision-making, and prestige. This abundance fosters space for being creative and innovating in the face of risk.

For reconciliation to work, the nonprofit sector needs to focus on the long-term: not everything will fall into place immediately, or when expected. It needs to understand that adapting settler philanthropy does not take away from legacies of goodwill. Rather, it creates room to evolve by investing in Indigenous-led solutions. There is enough to go around when abundance is recognized. We hope that Canada’s philanthropic and nonprofit sector will take up an invitation to re-evaluate, rethink, and take risks.

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Biography

Shereen Munshi and Elisa Levi, The Circle on Philanthropy and Aboriginal Peoples in Canada

Shereen Munshi is a communications professional who was born in Zambia and immigrated to Canada with her family more than 10 years ago. As a proud University of Ottawa alumnus, she has since gone on to amass experience working in the Canadian nonprofit and philanthropic sectors. In her current role as manager of partnerships and strategic communications at The Circle on Philanthropy and Aboriginal Peoples in Canada, Shereen develops strategic relationships between The Circle and peer organizations that are in alignment with The Circle's values, mission, and strategic goals. In addition, Shereen works to increase visibility, amplify issues and voices of note, and ensure strong, responsive communication to achieve goals in service to The Circle's primary member audiences. She has a compulsion to uphold principles of equity and justice in her work and is nurturing a growing aptitude to amplify deep analysis of people, place, policy, and power to inform the philanthropic and nonprofit sectors. Shereen sits on the Data Policy Coalition Steering Committee, is a proud member of the Next Generation Philanthropy Collaborative, and serves on the Ontario Indigenous Youth Partnership Project core team.

After several years in the nonprofit sector strengthening Indigenous Peoples' health and the reclamation of Indigenous food systems, Elisa Levi is complementing this experience studying medicine at the Michael G. DeGroote School of Medicine, with graduation in 2021. She contributes her leadership as a community-elected trustee for her First Nation, Chippewas of Nawash; as a board director for the Anishnawbe Health Foundation; and as advisor to the newly established Indigenous Resilience Fund. As a registered dietitian, she holds a master of public health from Lakehead University and BASc from Ryerson University.

Community and Corporate Intersections

Chapter 26

The Business–Community Interface: From "Giving Back" to "Sharing Value"

James Stauch, Cathy Glover and Kelli Stevens
Mount Royal University

The terrain of social benefit and social change in Canada is not the exclusive domain of the nonprofit sector. Private sector businesses are a vital part of the social economy landscape – not only by way of investment in nonprofit activity, but also because a growing number of businesses are investing in, and even leading, social change. The boundary between for-profit and nonprofit is increasingly obscured. In addition, there are many variables that affect how a company exercises its philanthropic activities and engages in community partnerships and social change efforts. Such variables include legal structure, industry, maturity, relationship to customers, public profile, and leadership. The combined effect of these variables means it is difficult to generalize about the business-community interface; each company's approach is unique.

At a basic level, the public accountability of companies that emerges through legislation, regulation, and common law provides for certain forms of activity directly relevant to community safety, equity, sustainability, and prosperity. Take, for example, safety compliance, labour codes, and the necessity for consultation and consent: these requirements come from environmental and socioeconomic policies, trade agreements, Indigenous rights and title, et cetera. Many civil society actors (such as consumer advocacy associations, labour unions, citizen science groups, and environmental organizations) play a watchdog function that serves as one external check on businesses' compliance with public policy and regulation; a business's need to protect its reputation acts as an additional check and balance.[1]

This chapter explores what lies beyond legal requirements and compliance to propel corporate philanthropy and citizenship, recognizing that each company's approach is unique. Specifically, this chapter considers these questions: How do companies in Canada practise philanthropy and sponsorship? How do they engage their employees in community giving and volunteering? How do they exercise corporate citizenship and invest in positive social change? By understanding these dynamics, trends, expectations, new values, and principles, community practitioners can more effectively engage with companies and identify opportunities for partnership. Throughout this chapter, we draw from examples across Canada, from start-ups and small and medium-sized enterprises to well-established behemoths, across many industries and of every legal structure – private enterprises, publicly traded companies, co-ops and credit unions, chartered banks, and crown corporations.

A Brief History of Business–Community Relations in Canada

Before the 1990s, the nature of business–community partnerships could, at best, be described as "ad hoc." For the most part, financial and in-kind contributions to nonprofits came from individual philanthropists, the service clubs they participated in, or their foundations. These philanthropists were typically successful in business but did not generally use their businesses as philanthropic vehicles.

In fact, there was a strong consensus, or at least a thread of mainstream business writing, that companies should *not* engage in any philanthropic activity. As neo-liberal economist and Chicago School founder Milton Friedman argued, the role of business is to make money for shareholders, period. It must only abide by laws and regulations, employ people (if necessary), pay taxes, and make profit for shareholders. "There is one and only one social responsibility of business. To use its resources and engage in activities designed to increase profits" (Friedman, 1970). Friedman's argument was that a company's money is its shareholders' money, and the role of a company is to increase value for shareholders; any other use of the company's money is taking away value. The Friedman doctrine was tidily summarized in a 1989 opinion piece, "Three Good Reasons Why Firms Shouldn't Support Good Causes," by Terence Corcoran in *The Globe and Mail*. Such a position was strongly held and was regularly taught in business schools through the 1990s, and it is a position many businesses continue to hold today, supported by the legal concept of "fiduciary duty" to shareholders.

When Friedman and others took their position, they were also criticizing the deficit-addled welfare state, and their combined effect was ultimately to create a persistent lack of social infrastructure. By the time the Liberal government received its deficit-slashing mandate in the 1993 federal election, a powerful new "small government" Reform Party was asking tough questions. It was clear that community organizations were about to witness a massive increase in their responsibilities for self-financing their social and human services, arts programming, human rights advocacy, and other common-good pursuits. Nonprofits were forced to find new ways of fundraising and began looking to the business sector to help fill the gaps in their finances. As a result, the role of fundraising officers flourished and became professionalized.

A third piece of context from the 1990s came with the United Nations Brundtland Commission's *Our Common Future* report, the 1992 Rio Summit, and Canada's *Green Plan*. Companies encountered an unprecedented push from society to incorporate sustainable development ideas, principles, and practices into their work. Umbrella organizations and think tanks like the

International Institute for Sustainable Development (IISD) and Canadian Business for Social Responsibility were established to integrate sustainability into business. In the natural resources sector, the language of "social licence to operate" began to emerge.

Further, the *Delgamuukw v. British Columbia* Supreme Court of Canada decision was rendered in 1997 and became a watershed moment in describing the nature of Aboriginal title in Canada, and the related imperative for consultation and accommodation. Since then, the relationship that Indigenous communities have with business has been both challenged and strengthened, with it ultimately becoming integral to understanding the business–community interface in Canada. The founding of the Canadian Council for Aboriginal Business demonstrated this shift when it began by stating, "For decades, corporate Canada had assumed that government was in control of the situation and therefore eschewed any responsibility for helping Aboriginal people to participate in the mainstream of this country's commerce" (Canadian Council for Aboriginal Business, 2018). More recently, some companies, corporate foundations, and business associations have signed on to the Philanthropic Community's Declaration of Action, which commits to continued, positive action on reconciliation.

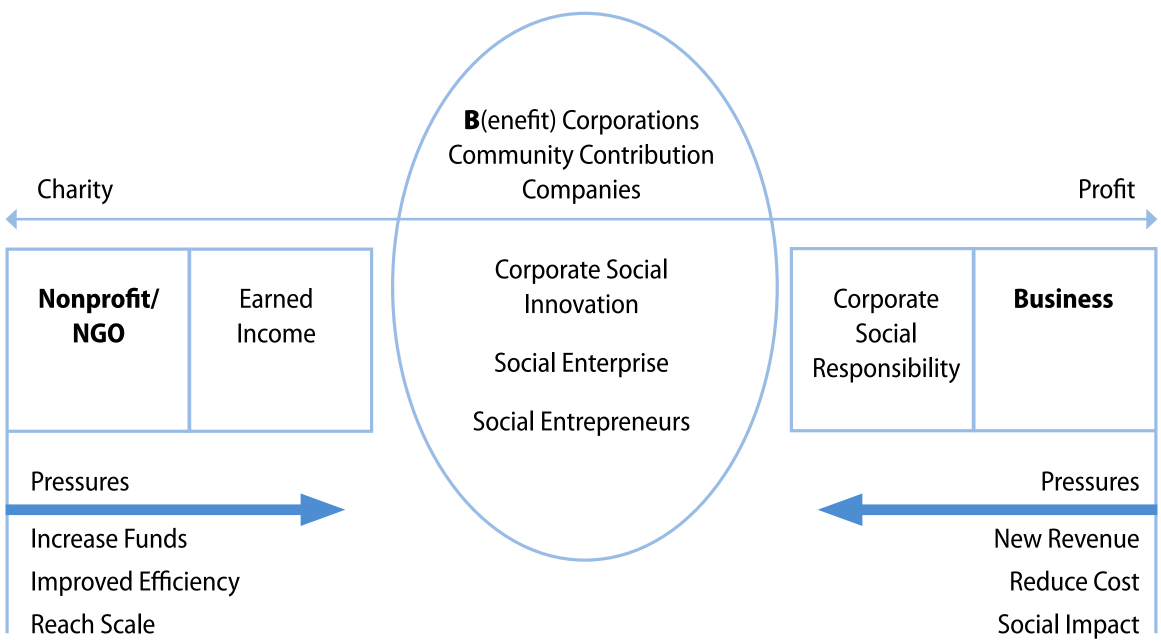
Finally, parallelling several of these developments, Canadian companies took an increased interest in cause-related marketing (CRM). Although corporate sponsorship was already on the Canadian scene in the form of large sporting or arts events (such as the Molson Indy or the DuMaurier Jazz Festival), CRM had emerged in the United States in the early 1980s, and followed in Canada (Daw, 2008). As one example, CIBC's Run for the Cure campaign launched in 1992 as a partnership with the Canadian Breast Cancer Foundation.

All these forces and changes, in turn, encouraged companies to respond constructively – in a more professional, strategic, rigorous, and programmatically defined manner than had previously been the case. As one result, large companies began to consider corporate social responsibility (CSR) in a broader sense. Although there were earlier arguments for CSR, such as the case made by Canadian management guru Henry Mintzberg (1983), it was not until the late 1990s that most large companies developed full CSR strategies and began reporting on these strategies in the form of environmental, social, and governance (ESG) pledges, commitments, and standards.

As a subset of CSR, many companies also developed community investment (CI) programs, sometimes referred to as corporate giving or corporate citizenship. As fundraising professionals began to solicit funds more aggressively from companies, there was a corresponding need inside companies to determine how to respond. This shift resulted in the emergence of a more professional and strategic approach to companies' management of community investment. Some companies created separately governed charitable foundations, such as the RBC, Suncor Energy, and TD Friends of the Environment Foundations. Many personnel in public relations or marketing roles were reassigned to manage community investment portfolios, and some companies hired fund development staff from their nonprofit investees – a field that was also increasingly professionalized during this period (Crane, 2018). About the same time, the Canadian Centre for Philanthropy (now Imagine Canada) initiated its Caring Companies program, which challenges companies to give a minimum of 1% of pre-tax profits to community initiatives.

These emergent practices and fields of community investment, sustainability, sponsorship, CRM, and CSR have evolved and adapted during the 21st century. Notably, the ideas of "shared value" and "corporate social innovation" are gaining traction and are the focus of much of this chapter. We will also discuss some of the trends found within hybridization of businesses and social purpose mandates. While these agendas have a long history embodied in the co-operative movement and within nonprofit-run enterprises like museum shops, thrift stores, and YMCA recreation centres, they have recently become far more varied and sophisticated. Consider the onset of "B-Corp" certification, which sees companies seek certification that affirms they are meeting enhanced standards of social and environmental performance, accountability, and transparency; more than 200 companies have so far reached B-Corp status as a next-level commitment to community and corporate citizenship (B Corporation, 2018). As shown in Figure 1, the boundaries between business and nonprofits in the pursuit of social purpose and value are becoming increasingly blurred.

Figure 1: Blurred Boundaries of Social Value Between For- and Nonprofit



(Source: Adapted from the Lewis Institute, Babson College)

Key Dynamics of the Business–Community Interface

There are four main trends and dynamics that underscore how we look at the business–community interface in Canada:

1. Much like individual giving, the *level* of corporate philanthropy, measured narrowly in terms of reported charitable contributions, grew steadily from less than $100 million per year in the early 1960s to more than $1 billion per year through the early 2000s (Chouinard, 2007; Ayer, 2011). On a per capita basis, this amount is about half the estimated level of giving in the United States (CECP, 2017). Measured as a percentage of pre-tax profit, giving has remained relatively static in Canada during the past two decades: from about 0.6% to just over 1%. Further, fluctuations in giving correspond closely to industry/economic cycles: when there is a recession (causing increased demand on many nonprofits), corporate giving tends to decline.
2. The *nature* of how companies engage with community is far more nuanced than charitable contributions. Most companies do not claim charitable donations on their tax returns, as there is often no advantage to doing so (Ayer, 2011). One consistent trend over the past three decades has been a rise in corporate *sponsorship* rather than donations. In these cases, the nonprofit organization accepts funding in exchange for providing profile to the company. Sports and recreation organizations have especially benefited from such sponsorship (Chouinard, 2007). Beyond sponsorships, the array of other tools used by companies to invest in communities is shifting rapidly and radically. Companies are increasingly moving from a combination of self-interested sponsorships and passive, transactional donations to engaging in shared conversations – and occasionally catalytic action – about the world we collectively want. "Purpose-driven enterprise," "social businesses," and "humane" or "awakened" companies are terms that are being used to explain this new hybrid company–community ethos (Yunus, 2010; Bell, 2015; Pontrefact, 2016). As one sign of this trend, Babson College (US) is using its position as North America's leading entrepreneurship-focused business school to create a host of learning products and experiences for "C-suite" (executive level) business leaders to transform companies into social-purpose enterprises (Kiser & Leipziger, 2014).
3. Relative to other countries, extractive and agricultural industries are significant players in Canada, so a commitment to *sustainability* is a third driver of the business–community interface. The imperative to work with Indigenous communities here is increasingly important.
4. Finally, there has been a change in *public expectation*. Polling data show that the social responsibility imperative of business has moved in three decades from the margins to the mainstream (Edelman, 2017). The notion that companies have a right to accumulate profits without a robust sense of public purpose or responsible citizenship is becoming untenable. Milton Friedman's maxim that business has no social responsibility is an idea now met with increasing public revulsion. Pressure to identify a social purpose or responsibility now also comes from investors, including activist shareholders (faith groups, pension funds, and others), for business to change. Laurence Fink of BlackRock, for example, has demanded that companies contribute to society if they want to receive his investment firm's support (Ross Sorkin, 2018).

The Community Investment Continuum

In addition to the generalized drivers and trends mentioned above, a number of models strive to describe how companies make decisions about how and why to invest in community, and these models incorporate a variety of factors and considerations. The *type* of company is one such factor. Crown corporations, for example, often have community accountability legislated into their mandates. Cooperatives subscribe to community-forward principles. Private enterprises have more leeway in risk-taking and experimentation than publicly traded companies, although smaller companies or start-ups may lack the fiscal room to enact well-intentioned social aims. A company's industry sector is another factor (finance, energy, mining, retail, technology, etc.). Large banks, for example, tend to have large profits, which enable them to create robust, highly visible, and long-term community investment strategies. Energy and mining companies are often engaged in Indigenous community partnerships or overseas investments. Consumer-facing companies require visible marketing tie-ins, whereas other companies are business-to-business focused, which can allow for experimentation or a low-key strategy. In addition to the type of company and industry, other factors include a company's maturity, broader CSR commitment(s), orientation toward customers versus shareholders, supply-chain challenges and ethics, organizational culture, and leadership.

All of these factors affect where a company sits on a continuum of community investment strategy. One of the best-known descriptions of this continuum was developed by Brad Googins, founder of the Boston College Center for Corporate Citizenship. He and his co-authors proposed a model of community investment involving five stages: elementary, engaged, innovative, integrated, and transforming (Googins, Mirvis, & Rochlin, 2007). Companies are evaluated across seven different dimensions of citizenship to determine where they fit on this elementary-to-transforming continuum (Googins et al., 2007):

- *Citizenship concept:* How does a company define its role in society?
- *Strategic intent:* Is citizenship embedded in the company policies, processes, and plans?
- *Leadership:* To what extent is leadership supportive and engaged?
- *Structure:* How is citizenship structured within the organization?
- *Issues management:* Is the company proactive or reactive to issues?
- *Stakeholder relationships:* How does a company communicate and engage with its stakeholders?
- *Transparency:* How open is a company about finances, risks, and performance?

A few years after this continuum was published, Michael Porter and Mark Kramer used the *Harvard Business Review* to introduce the idea of "creating shared value" (Porter & Kramer, 2011). They argue that business success is tied to social progress and should be at the core of business strategy. This means that business should create economic value in ways that simultaneously create value for society by addressing issues, needs, and challenges. Within this stance, they identify three ways to create shared value: 1) by rethinking markets and products, 2) by looking at the value chain, and 3) by enabling development in local clusters. Many large multinational companies have begun operationalizing this strategy, and significant shifts are beginning to occur in Europe and North America as more companies follow suit. In such cases, community investment is not something at the periphery of a business, but instead becomes completely integrated into the core mission, products, and services.

In an attempt to incorporate the above perspectives, Canadian social impact consultant Jocelyne Daw adapted the Googins continuum to include additional dimensions incorporated from Porter and Kramer, Coro Strandberg (2015), and Cathy Glover. This continuum (see Table 1) outlines increasingly sophisticated modes of socially purposeful or community-engaged activity: from *compliance* through *philanthropic, strategic, integrated*, and, ultimately, *social innovation*. This latter category hybridizes Googins's "transforming" stage with Porter and Kramer's "shared value" concept.[2] Of note, companies rarely fit neatly into one column; instead, they move back and forth between columns and operate at several different levels at once.

Table 1: Community Investment Continuum

	1.0 Compliance	2.0 Philanthropic	3.0 Strategic	4.0 Integrated	5.0 Social Innovation
Motivation	Comply	Give back	Be responsible	Be more competitive	Create new value
Resources	Cash & in-kind	Grants	+ Volunteering & staff skills	+ Other assets, functions, products, services	+ Leveraged collective resources
Investment Models	Meet obligations	Share value/give back	Share and make value	Deliver value across the company and community	Create shared value
Issue Selection	Ad hoc	Reactive – address community needs	Focus areas	Strategic partnerships	Address complex social challenges
Lead	Front line	Executive/public relations	Community relations/ investment staff	Cross-functional	Embedded
Employee Role	None	None	Donate	Donate and volunteer	Skills-based volunteering
Customer Role	None	None	Customers can donate	Customers can participate & donate	Empower a community of committed citizens
Stakeholder Engagement	Responsive	Reactive	Consultative	Proactive	Collaborative

Structure	Business-driven	Responsive – part of other role	CI role created, governance established	CI-led with business support	Cross-functional with business lead
Brand Promise	Compliant	Quality: aware company donates money	Pride: aware of company's socially beneficial impacts	Trust: aware of how company contributes to community	Purpose/ meaning: believe society is better off if they do business with the company part of a social movement
Marketing	None	Paid advertising tells story	Earned media/ cause marketing tells story	Customers tell story	Everything you do tells story
Participation	Limited	Passive	Funding relationships	Win-win partnerships	Strategic cross-sector partnerships
Timeline	One-offs	< 1 year	Multiyear	Medium-term	Long-term
Measurement	Dollars	Inputs	Activities	Outcomes	Social change
Business Value	Regulatory	Goodwill & relationships	Reputation – licence to operate	Mitigate risk & profitability	Long-term viability
Strategy Connection	Requirement	Outside of strategy/ executive preferences	Strategy for community investment program	Integrated into CSR/sustainability strategy	Drive strategic direction for enterprise

(Developed by JS Daw & Associates based on other continuums, including Bradley Googins, Michael Porter, and with input from Cathy Glover and Coro Strandberg.)

A number of Canadian companies have moved along the continuum to operate beyond the "compliance" or "philanthropic" modes.[3] Publicly traded giants like Bell and RBC, for example, are working to change our attitudes toward mental health and water conservation, respectively. Credit unions like Vancity and Assiniboine have underwritten action on issues like Indigenous–settler reconciliation and predatory payday lending. Credit unions collectively hold $3.5 billion in social impact investment assets. In Alberta, ATB Financial has championed LGBTQ rights. Some companies are helping to spark and support bold, imaginative possibilities for Indigenous Peoples, such as Agnico Eagle's embrace of the idea of an Inuit university. Suncor Energy partnered with The Natural Step and other nonprofits, researchers, and others through an "Energy Futures Lab" to look at how an entire industry can be transformed during this century. Other industries – craft brewing as a leading example – are starting to embed cultural norms and expectations with respect to community-building and ecological stewardship into their "DNA."

Compliance

The compliance stage of development might also be called the "Milton Friedman approach to community investment." This is the stage where most companies have historically begun their CI strategy development, and where they have predominantly operated through to the 1990s. This way of thinking about a business's responsibility to community is relatively simple, characterized by compliance with rules and regulations. There is limited, or no, involvement with stakeholders, and any contributions to stakeholders are the result of a requirement. Engagement is thus often defensive and focused on risk mitigation.

Shifting to the next stage might happen as companies begin to think about their role in society beyond providing a product or service, earning a profit, ensuring jobs, and paying taxes. They may be pushed into this kind of thinking because of an incident involving community, human rights, or environmental damage that leads to public or industry pressure. The 1980s, for example, saw multinational companies like Nike and Shell face pressure regarding human rights issues in their supply chains and operations in developing countries. Even now, Shell's past experience in the Niger Delta affects how the company manages its corporate citizenship programs. Shell's past issues moved the company from believing it need not be concerned with human rights and sustainable development to becoming an industry leader in the creation of corporate social responsibility practices and policies that involve new ways of engaging with stakeholders, assessing risks, and communicating (Manby, 2005).

In short, the past 40 years have seen higher expectations placed on companies, such that it is increasingly difficult for companies to remain at the compliance stage of investment. With that in mind, the next section will take a closer look at each stage.

Philanthropic

A *philanthropic* mindset on the CI continuum includes the expectation that wealthy companies share with others in need, and do so beyond regulatory requirements. This mindset is certainly not new; business leaders in Canada have been contributing to charitable and community causes for hundreds of years. Those who experienced business success, like the Molson and the Eaton families, played key roles in developing our largest cities in the late 1880s and early 1900s, and such individuals continue to be generous philanthropists. Along the way, philanthropists with business roots created the United Way of Toronto and York Region in the mid-1950s, led by the Toronto Trades and Labour Council in response to pressure from workers who were constantly asked for contributions to fundraising campaigns by welfare agencies in the community. Creation of the United Way also led to the 1956 establishment of charitable payroll deductions (Labour Community Services, n.d.).

Through the 1980s and 1990s, characteristics of the philanthropic stage evolved from being "the right thing to do" to a relationship-based response to the idea of community investment. Engagement typically comes through established programs such as United Way campaigns or pertains to causes of importance to the CEO, senior leadership, close supply-chain partners, or valued customers. Funding is often ad hoc and implemented by communications or public relations staff. There may be an established budget line for charitable contributions, but it is not typically a plan for strategic spending or a direct connection to branding or marketing strategies.

Another characteristic of this stage is that philanthropic engagement is typically measured only in the total number of dollars donated, and most employees and customers are not actively engaged. Instead, many companies at this stage may join external networks that encourage corporate giving. Mountain Equipment Co-Op, for example, has been part of 1% for the Planet since 2006 and has used this connection to commit to giving at least 1% of annual sales to environmental organizations.[4]

Strategic

From the philanthropic stage, two key triggers may advance a company to the next stage on the continuum: 1) the philanthropic workload becomes too significant to be combined with other roles, or 2) the company has either a great success or significant failure in a funding relationship. These triggers prompt organizations to understand that there is significant reputational benefit to managing community investment differently and that there needs to be greater oversight and governance in the decision-making, stewardship, and scaling of grants.

In the *strategic* stage, CI begins to develop in response to the number of requests an organization receives or to a need to make better decisions about what to fund and what not to fund. As lessons are learned in the strategic stage, organizations shift from simply reacting to funding requests to beginning to develop focus areas, or "buckets," of funding (e.g. education, environment, health) to determine which requests to support or decline. It is during this stage that companies begin to develop signature programs and new relationships with stakeholders. Sponsorship programs connected to causes and organizations are designed. Cause-marketing campaigns with customers may emerge. Annual budgets for funding are created against a plan, and there is greater pressure to build a business case for community investment, which may also begin to include in-kind contributions beyond the financial donations. Also at this stage, companies begin to see mutually beneficial opportunities: it is not only the community or nonprofit organization that benefits, as some funding relationships garner strong, positive reputation results and brand recognition (such as CIBC's Run for the Cure, Ronald McDonald Houses, and Tim Hortons camps). Similarly, the strategic stage also sees the beginning of customer contribution programs that involve proceeds or donations from customers on a specific day or with a specific purchase (e.g., McHappy Day, Safeway Cares, Indigo Love of Reading). Employee programs also often emerge at this stage, to support volunteerism and employee engagement. These programs are often created in the form of "dollars for doers" programs, providing grants to charities that employees volunteer for, or providing employees time off to do volunteer work. A common example here is the United Way's Days of Caring program.

As successes occur more frequently in the strategic stage, the community investment professional can begin to understand the conditions under which success occurs and start to be more strategic in looking for the right partnership and investment opportunities. Seeking such potential begins the shift to the next developmental level.

Integrated

In the *integrated* stage of the continuum, a CI program becomes much more proactive, and the company begins to look for specific opportunities that address business risks and issues and social needs. The program also is integrated into the company, engaging more than just the

CI professionals; there is active employee involvement, and co-development of initiatives with stakeholders begins to form key elements of the program. Strategies at this level are also more often integrated with a business's overall sustainability or CSR strategy, and accountability for implementing the CI strategy often moves to increasingly higher levels within the organization – the CEO or senior executives are often engaged – and employees and customers become integral.

Suncor Energy offers an example of CI programming at this stage. As an energy company, Suncor must attract and retain employees for work in remote communities such as Fort McMurray, Alberta. Particularly during "boom" years, when competition for employees is high, it has been difficult for Suncor to meet its recruitment needs, with prospective employees declining positions because of concerns about their quality of life in Fort McMurray. Suncor and other companies in the region have funded significant infrastructure, but the Suncor Energy Foundation took a more proactive approach during one of the boom periods by examining what could be done with the nonprofit community in Fort McMurray to enhance the quality of life. The foundation identified that the capacity of the nonprofit sector was very low in the area, with rapid turnover of executive directors, poor funding, and less-than-desirable workspaces. It also identified that without a strong social sector, many of the programs of importance to prospective employees were suffering (in areas such as sports and recreation, after-school care, education, health, and special interests). This social gap was also a business risk, and the foundation was able to co-create a program with the community – Social Prosperity Wood Buffalo – that addressed both. Its success has further encouraged Suncor to consider how the company might engage differently with all its transformative partners (Capacity Canada, 2015).

Social Innovation or Shared Value

The *social innovation* stage refers to the emerging focus on corporate social innovation, which is "a strategy that combines a unique set of corporate assets (innovation capacities, marketing skills, managerial acumen, employee engagement, scale, etc.) in collaboration with other sectors and firms to co-create breakthrough solutions to complex economic, social and environmental issues that bear on the sustainability of both business and society" (Mirvis, Googins, & Kiser, 2012). Three considerations drive companies toward social innovation: decreasing opportunities for revenue growth; increased expectations from stakeholders, customers, and the public to meet economic, environmental, and social challenges; and an increasing challenge to engage and retain employees. These three factors combine to create the following realizations for business (Mirvis & Googins, 2017):

- social concerns such as climate change, human rights, poverty, and Indigenous reconciliation are all pressing (and potentially destabilizing) issues;
- traditional charitable giving and CSR practices are insufficient to address such issues;
- meeting social challenges requires "innovation in innovation";
- employees want to be involved;
- social innovation involves collaboration with many external partners; and
- social issues are business opportunities.

As companies come to grips with these imperatives and begin to explore where they might play a social innovation role, they examine and build upon past CI successes. But they also explore how identifying key risks to their businesses might lead to the identification of opportunities that can help mitigate those risks. They look at how their products might be associated with specific issues or issues that are prevalent in their manufacturing or supply chains. They examine issues of importance to employees and customers and seek out places to collaborate with those people. Some companies look to the United Nations Sustainable Development Goals as a potential framework under which they might approach social innovation with communities, nonprofits, and governments. Similarly, the Calls to Action within the Truth and Reconciliation report can serve as a guide for Canadian businesses.

Shared value and social innovation are where engagement in the community creates value for a business and begins to profoundly transform the nature and role of a business – through new products, new distribution lines, local employment, or industry collaboration. A key characteristic that defines this stage is a company's focus on collaboration with others outside the business; the company is not creating CI initiatives on its own but is instead working closely with stakeholders who are affected by the field of interest or considered expert in those fields. Engagement is proactive, and the company uses its abilities to convene various, diverse stakeholders. Such collaboration with governmental actors and other nonprofits becomes key because the issues being addressed are increasingly complex. For this reason, social innovation or shared-value community investment typically requires the *active* involvement of a company's CEO or president and support from the company at many levels. This may even take the form of secondment of employees to work within community organizations.

The Bell Let's Talk campaign provides an example of working at this stage of the continuum. While mobilizing customers to use their cellphone texting to raise funds for mental health may not be innovative, it is unique for a company to use the power of its marketing capability to raise awareness and change behaviour related to mental health. Nonprofits do not have the financial, human resources, or technological capacity to create the type and size of campaign that Bell has supported since 2011. In fact, according to Bell, 87% of Canadians report greater awareness of mental health issues. This change is reportedly even higher among people aged 14 to 18 (Bell Canada, 2018). Much like the CIBC Run for the Cure did in 1997, Bell has used its CI programming to help define a new way for companies to engage in complex social issues, as well as address the growing business concern about mental health issues in the workplace; for instance, it has implications for lost productivity, absenteeism, presenteeism, and employee turnover (Lim K.L. et al., 2008). Indeed, the difference between this campaign and previous cause-marketing efforts is the extent to which mental health awareness has been driven into Bell's culture: the Let's Talk campaign is not just an external initiative, but one where Bell also tracks its own progress in support of its 48,000 employees across the country. This focus has resulted in mental health policy being embedded in the company's code of conduct (reviewed annually by all employees); almost 4,400 leaders participating in mental health training; increased use (by 162%) of the company's employee family assistance program; more than 900 mental health events for employees; the use of a "return to work" program that has meant a 50% reduction of relapses during one month and one year; and the early corporate adoption of the voluntary National Standard for Psychological Health and Safety in the Workplace (Bell Canada, 2016).

ATB Financial and Cashco present another example of companies working with community organizations to develop new products and systems that address social issues. Collaborating with Momentum and other charities that support low-income and new Canadians in Calgary, these businesses have partnered in a way that allows customers of Cashco to open accounts with ATB and use ATB's ATMs to obtain short- and medium-term loans at lower costs than what payday lenders typically offer. This development of a new business product to target different markets simultaneously helps to support marginalized populations in urban centres. "When we really dug in and listened to these customers and what they need, we heard loud and clear that, as an industry, the problem has been us," said Dave Mowat, ATB Financial's president and CEO. "By our actions or inactions, we've either said these customers' arrangements with their payday loan companies could never change or that they had to come to us and buy some product with a fancy name, when really what they were saying is that banking doesn't really work for them." Jeff Loomis, executive director of Momentum, added that "by working with Cashco and meeting customers where they are at, ATB is pursuing an innovative approach to increase access to safe and affordable financial products so Albertans can build savings and achieve longer-term financial stability" (ATB, 2017).

Location on the Continuum and What It Means for Investment in Nonprofits and Charities

The reality is that most companies operate in several of the above stages at any given time. While the structure of a community investment program might be integrated, for example, there are still times that investments will be made because they are "the right thing to do" (e.g. response to a natural disaster or local issue). Each company must therefore identify the values and practices that anchor its business strategy, and then manage this strategy as is appropriate to the company's history, industry, workforce, and other aspects of its context. In addition, the last stage of the continuum is not necessarily where every company will (or should) aim. While some companies may work toward this stage, and some emerging social enterprises might even start at this stage, other businesses may continue to operate at the philanthropic or strategic levels, for reasons related to their culture, mission, leadership, organizational structure, budgets, or maturity.

The critical point for nonprofits is that to work effectively with or receive funds from a business, it is important to understand where those companies are working along the continuum. It is worthwhile to know, for example, that companies at the beginning stages of the continuum are going to be more open to unsolicited grant requests. They will often have "buckets" or categories of funding to guide their community investment, sometimes matrixed across different issues or communities. For example, a company might have identified education, environment, and health as its three funding buckets and might then budget funds to each so that 20% is national, 50% gets split across several operating communities, and 30% is in support of its employees. When unsolicited grants are reviewed, they have to fall within one of these nine categories and be considered against what is already committed. Usually, companies with established focus areas and budgets will have commitments for future years and often will begin the budget year with only 20 to 25% of their budget available for new funding opportunities. Most companies will clearly post criteria and funding parameters online so applicants can better understand the processes. That said, it is always important to research the company so that time is used effectively, for the staff of both the company and the requestor. (The best predictor of what a company at these stages will fund is what they have done in the recent past.) While not all information is public, fundraisers can often find such information on company websites, social media feeds, or through sustainability/community reports. Researching similar charities to see who their lead funders are can also determine which companies might be interested in becoming supporters.

As companies move through the later stages of the continuum, it is not always easy to understand why they are focusing their efforts on a specific issue – but there is always a strategy and linkage to business operations behind community investment spending. As companies get to the stages where successes are no longer measured only by dollars invested or hours of employee volunteerism, companies expect greater impact, new business lines, more significant supply-chain partnerships, and new business relationships. In Canada, we have seen several leaders in this space emerge over the past 10 years with very different experiences behind their strategies. In addition to the earlier examples, Canadian Tire's Jumpstart program and Home Depot Canada's Orange Door initiative have changed the way that these businesses engage with customers and community issues. Since Home Depot Canada started the Orange Door Project in 2009, it has invested more than $10 million in housing and community improvement projects across the country, collaborating with leading charities focused on youth homelessness and with young people directly. The company has also engaged its suppliers as advisory council members, thus expanding the program's impact. Employee- and customer-engagement programs have been aligned to the initiative and are beginning to result in outcomes such as at-risk youth securing employment. Ultimately, Home Depot has identified a group of charitable partners to work closely with, not only by providing funds, but by continuing to be engaged in research, impact assessments, and collaborative efforts aimed at ending youth homelessness (Home Depot Foundation, 2018).

As a company moves through the stages of the continuum, the alignment of community investment strategy to the business becomes more critical (i.e., in terms of mission, vision, values, attitudes, and practices). In assessing the way a company is building its program – and when proposing a partnership with the company – it is useful to understand the organization's history, workforce, geography, industry, ownership, and competitive environment, because the organizational structure of a business and its industry will influence the type of CI program it develops. Consider, for example, a B-Corp or a cooperative, which will be more likely to operate with societal needs at the core of its business strategy, right from inception. A sole proprietor as an entrepreneur, on the other hand, will often be more reactive to funding requests and will often rely on the philanthropic stage (unless they have structured their company at the shared-value stage from the beginning). Corporations can be publicly traded or privately held but are accountable to shareholders or stakeholders who may influence CI strategy. When companies are regional operators of larger multinational corporations or joint ventures, they will need to adhere to overarching strategies from their head offices, rather than having the ability to create their own independent programs. Similarly, franchised businesses may think differently about CI than independent retailers. At any size, CI programming may also be affected by whether a business is focused on consumer products, commodities, or serving other businesses. And regardless of all other factors, companies will always work to minimize business risks. By understanding what these risks are, nonprofits can identify the possibilities and opportunities that may attract a company's CI spending. Finding an alignment (or "win-win") between a nonprofit and a business is one of the key components of strategic community investment.

As mentioned earlier, there are some companies that may *start* their work in the continuum's final stage. Indeed, the characteristics of social innovation and shared value are perhaps best embodied in a type of business that is broadly termed "social enterprise." While the definition of social enterprise remains contested, one Canada-wide analysis observes that "the dominant elements of social enterprise are seen to rotate around 1) economic operation in the market, and 2) provisioning a social good of some kind, namely environmental, community, social, or economic." (Brouard, McMurtry, & Vieta, 2015).

There are many forms of social enterprise. "One-to-one" social enterprise models such as Tentree apparel (committed to planting 10 trees for every item purchased), Local Laundry (donating 10% of profits to causes chosen by their customers and attempting to ensure that their products are made in Canada), and Twenty One Toys (producing toys and workshops that support learning through creativity, collaboration, and empathy) have integrated shared value into their business models from the outset. Indigenous enterprises also embody social enterprise, for instance Manitobah Mukluks, the Kinngait artist co-op in Nunavut, the former Indigenous retail co-op known as Neechi Commons in Winnipeg, and the Manitoba-based enterprises BUILD and Aki Energy, initiated with the support of Ashoka Fellow Shaun Loney.

Community Investment as Employee Engagement

Employee engagement is a critical risk for all companies in Canada. To attract and retain employees, especially millennials and people with diverse backgrounds, companies must compete. Potential employees may size up companies based on culture, opportunities for giving back, development through volunteer involvement, and available time for secondments or leaves. In a 2015 study of millennials, 60% said that they joined their current employer because of the organization's sense of purpose (Antoniadi, 2017). An employee-engagement or volunteerism component within a community investment strategy, then, can be a draw for a business. Beyond talent recruitment, employee engagement is important for how it supports performance, efficiency, and other business priorities. A 2017 Gallup report of US employees, for example, found that a 10% improvement in employees' connection to the mission and values of their organization could reduce safety incidents by more than 12%, increase profitability by 4.4%, and decrease staff turnover by 8.1% (Gallup, 2017).

Fortunately, employee engagement is not new; it has been core to CI programs since the 1950s, with the creation of the United Way of Toronto. Many companies in Canada choose employee volunteerism as their primary demonstration of commitment to community, often through annual United Way fundraising campaigns and various "dollars for doers" programs. Increasingly, however, companies are designing more comprehensive and business-specific programs that include skills-based volunteering, family volunteering, global and service-leave volunteering, incentive programs, and the engagement of employees in creating initiatives that address complex social issues. As companies move through the CI continuum, their employee programs become increasingly integral to the overall CI strategy. In fact, at the social-innovation or shared-value stage, employees are critical to the success of an initiative, and the human resources department becomes more involved in managing the employee aspects of a program. Figure 2 illustrates this point: similar to the push toward the middle that we see in organizational structures, we see similar movement in employee development. On the nonprofit side, there is a pressure for recruiting skilled talent, and on the business side there is a pressure for employee engagement. As both pressures push toward the centre, demands for different types of volunteerism are emerging that are more skills- and development-based.

Figure 2: Rethinking Organizational Boundaries in Employee Terms

(Source: adapted from the Lewis Institute, Babson College)

Take Keurig Canada (formerly Green Mountain Coffee Roasters) as one of many examples of employee engagement as core to CI. Based in Montreal, this coffee company sources and sells coffee to consumers while priding itself on having a socially and environmentally sustainable business. Its signature program, launched in 2012, is called Community Action for Employees (CAFE), and it entitles every full-time employee to 52 paid volunteer hours each year. Its employees are involved in a wide range of activities – from cleaning up beaches and rivers to planting gardens to organizing and distributing food at food banks. The company is expanding the CAFE program to include more skills-based volunteering and strengthen connections to Keurig's CI themes (Volunteer Canada, 2017). Similarly, RBC employees are able to leverage their skills as financial services professionals. As part of the RBC Emerging Artists Project, employees provide financial-planning sessions for artists in the early stages of their careers (Volunteer Canada, 2017).

Technology is also a driver of change in employee engagement and CI strategies. Benevity, a Calgary-based B-Corp established in 2008, provides a software platform for businesses to manage employee programs such as volunteer involvement, grant processing, and incentive programs. The portal also incorporates standard metrics for the CI staff, such as participation rates and up-to-date snapshots of employee giving and volunteering trends (Volunteer Canada, 2016). Benevity's tools allow companies to design and develop volunteer-management and payroll-deduction programs that they can manage on their own (rather than relying on the Volunteer Centre Network or organizations such as the United Way). While Benevity's first clients included large American companies such as Google, Microsoft, Apple, Coca-Cola, and Nike, Canadian businesses are now using the service. One of the first was Meridian, a financial co-op based in Ontario that in 2015 launched a Benevity employee-engagement portal to support its employee CI programming. Using Benevity, instead of Meridian's previous reliance on manual processes, led to increased employee engagement, reaching more than 24% of the employee base.

The Professionalization of Community Investment

The CI field has become increasingly professionalized, with implications for both companies and nonprofits. Professional management of data and grant processing is one area of expertise that CI professionals require, but it is only one. The people in these roles also need to be skilled translators, influencers, and storytellers who can bring the outside into the company, and vice versa. It is no small task to develop relationships and build bridges between complex issues in the community and business priorities inside the company. While it may seem that CI professionals act as gatekeepers to grants processes, they also act as champions for the community. They work hard to develop influence internally that leads to creating budgets and processes for investing in and leading change.

A 2018 study by Imagine Canada asked CI professionals what had changed over the past 10 years and what was on the horizon in the field over the next five years (Ayer, 2018). Among the emerging issues were increased transparency, implementing technology to improve efficiency and effectiveness, collaborative grants, more long-term commitments to partners, new ways of measuring social impact, increased disaster funding, and alignment to the United Nations Sustainable Development Goals. These trends and emerging issues provide further evidence of the internal and external pressures that are shifting the relationships between business and the charitable sector. CI programs are becoming more strategic, more integrated with business, more efficient, and more transparent – all business drivers. At the same time, they are seeking social impact, enhanced partnerships and collaborations, longer-term commitments, alignment to social goals, and new ways to measure impact.

While achieving all these targets at once can be managed in different ways, a focus on social innovation can support increased understanding of, and comfort with, complex social systems, design thinking, empathy, and experimentation to drive change. Moreover, it can mean working and learning alongside external stakeholders and others with similar interests, including community and government practitioners and leaders.[5]

The emphasis on social impact that has come with this evolution of the field – coupled with heightened societal expectations of greater corporate transparency and external accountability – has generated a multitude of initiatives that provide performance standards, resources, and accreditation. Nonprofits can use companies' transparency and sustainability reports to become more familiar with a potential corporate partner's social and environmental goals and its impact (see Appendix A for examples). And companies now have a battery of off-the-shelf or customizable standards, benchmarking tools, and measurement methods to help support greater external accountability. The presence of such initiatives and indices, however, has also meant increasing pressure for companies to perform: the measurement and tracking associated with these tools is something that executives take seriously. A CI strategy that involves nonprofit partners in ways that address gaps identified through CSR reporting could be particularly valuable to companies trying to improve their performance. As more businesses engage with governments and the nonprofit sector to co-create and collaborate on solutions to complex issues, the need for *shared* measurement processes to better understand the impact of their combined actions has also become more pronounced.

Whatever the form of evaluation, it is worth agreeing on an approach with businesses from the outset. Especially as impact and benefits agreements are becoming more common (they are increasingly signed between resource companies and Indigenous communities, for instance), it is also becoming more common to work with a corporate funder to outline a range of benchmarks, practices, and partnership features that will define the relationship.

Conclusion

We have seen an evolutionary development within the stages of community investment, ranging from “doing the right thing” and contributing philanthropic dollars to becoming more sophisticated and strategic, using investments to transform relationships. This progression has been partly due to outside expectations and pressures and is partly related to learned experiences that demonstrate benefits to a business. One overarching trend is clear: the chasm between business and community is shrinking significantly. In the coming years and decades, we can expect to see even more integration, new hybrid business models, new standards of ethics and practice, and a continued blurring of the definitional lines in pursuit of a shared sense of value and a collective pursuit of social innovation. As businesses move to become increasingly proactive; as community investment becomes further connected to the missions, visions, and values of the organizations; and as employees play increasingly important roles in strategy and product development, the potential for shared social and business impacts will increase.

To take advantage of these opportunities effectively, it is important that nonprofits understand the considerations that go into a community investment strategy, as discussed in this chapter, and use these considerations as points of connection with businesses. As companies move to a shared-value or transformative approach, the “how” of community investment is becoming more important than the “what.” Business leadership is becoming less reactive and more proactive, with the community strategy integrated into the overall company strategy. This disruption to the conventional relationship between charitable organizations and business marks a profound shift in the relationship. In some cases, the change will also see relationships become narrower and deeper, and not measured primarily by charitable donations or employee volunteer hours alone. In other cases, the business may take an active role in bringing together various players to create collaborative multi-stakeholder partnerships, marking “success” as the overall impact and contribution.

One thing is certain: there are increasing societal expectations about the role that corporations and businesses play in the world. At the same time, the charitable sector is trying to source sustainable funding that allows leaders to focus on the mission and work of their organizations rather than managing fundraising campaigns. This situation is blurring boundaries and is not always comfortable. As new “rules” emerge, there will be challenges for organizations at the lower end of the CI continuum, as they tend to hold on to the established system rules. At the same time, the nonprofit sector (and governments) may question business’s role in social issues, creating different sorts of challenges.

Appendix A: Community Investment Measurement Resources

- The UN Global Compact was launched in 2000 as a framework and set of principles to deepen and mainstream commitment to CSR. It has 13,000 participants and the largest database of corporate sustainability or ESG reports.
- Third-party evaluators such as Corporate Knights, the Jantzi Social Index report on corporate social responsibility (CSR) measures, and the London Benchmarking Group (LBG) measure community investment as a subset of corporate responsibility.
- The Impact Reporting and Investment Standards (IRIS), created by the Global Impact Investing Network (GIIN), is perhaps the best-known attempt to standardize the assessment of social and environmental impact, specifically as a tool for social impact investors.
- The Global Reporting Initiative (GRI) has emerged as a reporting tool for sustainability practices, especially for companies in the extractive sector (i.e., mining, oil, and gas), and the Extractive Industries Transparency Initiative (EITI) also sets a global standard for good governance in oil, gas, and mining.
- ISO 26000 certification provides guidance on how businesses can operate in a socially responsible manner.
- Stakeholder groups like CERES have emerged to work with and challenge Fortune 500 companies to continually improve their environmental and societal impacts.
- Industry-specific or supply-chain certification tools, such as the Forest Stewardship Council (FSC), Fairtrade Canada, and SeaChoice, provide still other means to assess performance, and industry-led accords such as the International Council on Mining and Metals (ICMM) and the Canadian Oil Sands Innovation Alliance (COSIA) introduce industry best-practice standards for sustainability.
- The Canadian Council for Aboriginal Business (CCAB) has a certification program for Progressive Aboriginal Relations that provides an independent third-party verification of company reports, and the final level is determined by a jury of Aboriginal business people.
- Certified B-Corps must undergo their own assessment through B Impact Assessment; the tool for this assessment is available online for companies that may be considering B-Corp status but can be useful for any organization (including nonprofits) that wants to gauge its sustainability, ethical, and social commitments.

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Notes

[1] The COSO Enterprise Risk Management Framework, for example, identifies environmental and social risks and methods and strategies for responding to these risks.

[2] Michael Porter and Mark Kramer have been key thought leaders in helping businesses shift their thinking. From their first *Harvard Business Review* article on “The Competitive Advantage of Corporate Philanthropy,” in 2002, through to their piece on “Creating Shared Value” in 2011, their work is an excellent place to start when looking for additional resources. Other influential articles include “Catalytic Philanthropy” (Mark Kramer, *Stanford Social Innovation Review*, Fall 2009), “Strategic Philanthropy for a Complex World” (John Kania, Mark Kramer, and Patti Russell, *Stanford Social Innovation Review*, Summer 2014), and “The Dawn of System Leadership” (Peter Senge, Hal Hamilton, and John Kania, *Stanford Social Innovation Review*, Winter 2015). By reviewing these articles in sequential order, it is possible to see how community investment programs have evolved over time, and how corporate philanthropy can be strategic and help provide businesses with a competitive advantage through a “sweet spot” that provides both social and economic benefit. Another good source is the consulting firm, FSG, that Porter and Kramer founded to work with foundations, businesses, governments, and nonprofits engaged in social change. The FSG website offers case studies, articles, thought-leader blogs, tools, and resources for those interested in collective impact, inclusive markets, and shared value.

[3] A number of the examples cited in this paragraph are based on a series of community investment “caselets” published by the Institute for Community Prosperity at Mount Royal University.

[4] This network was created in part by Yvon Chouinard, founder of Patagonia in 2002, and now includes more than 1,200 members in 40 countries.

[5] Another resource that discusses competencies for CI professionals is the Boston College Center for Corporate Citizenship. They identified broad leadership competencies that support CI professionals in developing increased corporate citizenship, including peripheral vision, optimistic commitment, personal maturity, visionary thinking, systems perspective, collaborative networking, change driver, and strategic influence (Kiser, Leipziger, & Shubert, 2014).

Biography

James Stauch, Cathy Glover, and Kelli Stevens, Mount Royal University

James Stauch is the director of the Institute for Community Prosperity at Mount Royal University, where he has developed or co-created social-innovation, leadership, and systems-focused learning programs for both undergraduates and the broader community. He previously served as a foundation executive and philanthropy and social-change consultant, and currently serves on two entities that combine business and community investment: as a director on the board of Alberta Ecotrust and as part of the leadership faculty within the Conference Board of Canada's Corporate Responsibility and Sustainability Institute. His other recent contributions to community-partnered knowledge production include *One Big Experiment: Chronicling a Nonprofit Merger in Action*, with Trellis; *The Problem Solver's Companion: A Practitioners' Guide to Starting a Social Enterprise*, co-produced with Shaun Loney and Encompass Co-op; *In Search of the Altruithm: AI and the Future of Social Good*, co-authored with Alina Turner of HelpSeeker; and *A Student Guide to Mapping a System*, co-produced with Daniela Papi-Thornton and the Skoll Centre for Social Entrepreneurship at the University of Oxford.

After 20 years in volunteer management, fundraising, and leadership roles in local and regional charities, Cathy Glover became the director of the Suncor Energy Foundation in 2001, managing one of Canada's largest foundations by disbursement. Upon retiring from Suncor in 2017, Cathy was gifted the Blackfoot name Aahpii Pitahgii, or White Eagle Woman, recognizing her leadership and support of Indigenous youth. She also joined Mount Royal University in the role of Changemaker in Residence with the Institute for Community Prosperity. Cathy has a BSc in psychology and MBA from the University of Calgary and an MFA in creative nonfiction from the University of King's College in Halifax. She is currently working on a manuscript about the changing role of corporate philanthropy and her personal reconciliation journey.

Kelli Stevens first came to know her co-author Cathy Glover at Suncor Energy, where Kelli worked in corporate communications; she and Cathy worked together on files related to corporate social responsibility. Kelli eventually left Suncor to pursue a master of social work focused on community development and to manage a multi-stakeholder youth gang-prevention project. She reconnected with Cathy and co-author James Stauch while they all worked with the Institute for Community Prosperity and the Trico Changemakers Studio at Mount Royal University. Kelli has also seen the community sector from the vantage point of a volunteer, holding several positions in both "frontline" and governance-related roles.

Part III Innovation and Intersections

Community and Corporate Intersections

Intersections with Governments: Services and Policy Engagement

Measuring Impact and Communicating Success

The Muttart Foundation

Intersections with Governments: Services and Policy Engagement

Chapter 27

Transforming Health and Social Services Delivery Systems in Canada: Implications for Government–Nonprofit Relations

Rachel Laforest
Queen's University

In today's world, policy problems are increasingly intricate and call on all sectors of the economy for solutions (Ansell & Bartenberger, 2017). Not surprisingly, service delivery systems have come to rely on a complex mix of networks and providers from the public, private, and nonprofit sectors (Hofstad & Torfing, 2016). In Canada, significant reforms of service delivery systems are currently underway in areas of health, housing, immigration settlement, employment services, and child and family services. These reforms, which call for greater horizontal integration of services, reflect a shift away from the "new public management" (NPM) paradigm toward that of "new public governance" (NPG). This significant change in public-administration paradigms is occurring in the context of increased competition for public resources and is driving pressures for performance and accountability across service delivery systems. As a result, governance processes are in a moment of transition as the ebb and flow of political and institutional changes are restructuring the funding and the delivery mechanisms of social services.

The latest health and social services models recognize the interconnectedness of people's often complex needs and focus on inter-organizational and inter-sectorial collaborations in policy development and design (Osborne, 2006). Across provinces, these shifts in governance processes have had a significant impact on the nonprofit sector. Nonprofit organizations, however, are not merely passive subjects of these changes; they are themselves active partners in the process of seeking to shape delivery mechanisms and, ultimately, improve the quality of patient outcomes. With federal and provincial governments under pressure to do more with less, the tools of collaboration are increasingly innovative, providing more opportunities for real power-sharing and engagement.

This chapter proceeds in three parts. First, we start with an overview of the legacy of new public management and the changing role of the nonprofit sector. We then situate these changes in the context of health- and social-services-delivery systems in Canada. Our focus is on the evolving nature of government–nonprofit relations in welfare provision. Second, we turn to an overview of the literature on new public governance to identify broad trends in modes of collaboration that are emerging between government and nonprofits. The final part looks more specifically at provincial dynamics to identify NPG dynamics in practice. Because health and social services are areas of provincial jurisdiction, there is bound to be some variation in the implementation of these new governance reforms. We examine the discourses and broad practices of governance across provinces to begin to draw a detailed picture of the opportunities and challenges for nonprofit organizations that might arise from a shift toward NPG processes (Voorberg, Bekkers, & Tummers, 2015; Emerson et al., 2012; Fung, 2007). The analysis is supplemented by semi-structured interviews conducted with senior civil servants in the field of health and social services in seven provinces. While there is evidence that new collaborative ways of engaging nonprofit organizations as partners and co-creators of policy are emerging, we still know very little about how these changing delivery systems will affect nonprofit organizations (Torfing, Peters, Pierre & Sørensen, 2012). We hope this chapter begins to fill that void.

The Legacy of New Public Management in the Field of Health and Social Services

Nonprofits have long been recognized as playing a prominent role in service delivery (Weisbrod, 1975; Hansmann, 1987). In 1987, Salamon was the first to point out that nonprofits had become third-party agents delivering services funded through programs steered by governments. Smith and Lipsky's *Nonprofits for Hire* (1993) also detailed how government contracting had shaped and transformed nonprofit organizations into agents of the state, or "street-level bureaucrats." They noted that nonprofits had to adjust their internal priorities and management practices to meet government demands. The management of the relationship between government and nonprofits can have a significant impact on the nonprofit sector. These government practices were informed by NPM scholarship and discourses (Pollitt & Bouckaert, 2011).

New public management emerged in the mid-1980s as a new approach for public administration (Hood, 1991). Although it was not a coherent paradigm, many governments at the time were facing severe economic constraints and recognized that welfare services couldn't continue to grow at the same rate of the past two decades. Instead, public management needed to be improved to gain more efficiency and effectiveness from the services provided. NPM was appealing because it embraced private-sector management practices and the creation of quasi-markets (Osborne, 2006). Under NPM, competition and market forces were viewed as the best mechanism to drive these delivery systems. To create a market for service provision, many governments introduced competitive tendering processes, which led to significant outsourcing and privatization of public services.

This paradigm provided a financing and delivery model that allowed governments to "steer" and set policy direction through performance agreements while relying on a vast network of partners within the community to "row" and deliver the services (Hood, 1991; Osborne & Gaebler, 1992). With the introduction of greater competition, governments determined who could provide services most cost-effectively. Competitive tendering and contracting arrangements also imposed strict top-down accountability pressures on both private- and nonprofit-sector organizations through performance management systems (Pollitt, 2005). As van Gestel et al. suggest (2019: 59), "The NPM model strongly emphasizes the use of targets, performance indicators and measurement to specify the desired output of government, or of the services that have been delegated to public or private agencies."

For the nonprofit sector, the widespread adoption of NPM instruments and techniques meant that private sector practices and values would become more prevalent and embedded in the service delivery systems. As a result, many researchers observed a professionalization and bureaucratization of nonprofit organizations (Suárez, 2011; Hwang & Powell, 2009; Smith & Lipsky, 1993). In many respects, the nonprofit sector was susceptible to these shifts in management practices because organizations are highly dependent on governments for funding.

In Canada, the majority of provinces adopted NPM reforms in the 1990s in a bid to improve responsiveness, efficiency, productivity, and the quality of health and social services (Aucoin, 2012). Many moved toward a regionalized model in an attempt to reorganize the structure of their delivery systems (Philippon & Braithwaite, 2008; Kouri, 2002; Marchildon, 2005). According to Barker and Church (2016: 334), "The proposed reform, adopted by nine of the ten provinces, involved a bold scheme to decentralize responsibility for the administration of major health programs and to centralize authority over the operation of these same programs by eliminating hospital boards and other local health agencies." Indeed, most provinces established semi-independent regional health authorities (RHAs) to be the hubs in the delivery of health and social services. When Alberta, which was the first to adopt a regional model, initiated consolidation in 1989, it had more than 200 governance structures in the field of health and social services. Saskatchewan had 400 local health boards in 1990; New Brunswick had 51 separate hospital boards in 1992, and Quebec had 146 local community service centres (CLSCs) by the mid-1990s – to give a few provincial examples.

The original intent of regionalization was to separate policy-making (steering) from implementation in a typical NPM fashion. By allowing partners within a region to collaborate, governments hoped there would be more opportunities to foster greater integration of services and be more responsive to local needs. However, the top-down accountability requirements and the inherent competition among organizations for contracts became barriers to coordination across the system. Through competitive tendering processes, an RHA could identify who was best suited to deliver services (Abelson et al., 2004; Marier, forthcoming). Although service delivery was devolved through contracting out to both the private and nonprofit sectors, the open competitive bidding process benefited private sector organizations. It undermined the privileged role nonprofit organizations had come to play in these delivery systems (Jenson & Phillips, 2000). Not surprisingly, the reforms failed to fulfill their promises, particularly in relation to accountability and citizen participation (Barker & Church, 2006).

The multiple, at times overlapping, funding arrangements meant that there were often competing values driving the regionalization process, from cost reduction to efficiency and effectiveness. With a complex mix of actors involved at different points in service delivery, provinces across Canada had, in effect, developed a fragmented and highly disjointed system. According to Fafard, “there has been a mish mash of ‘indicators,’ ‘targets,’ and ‘benchmarks’ suggesting confusion over the nature and goals of the performance management regime” (Fafard, 2013: 39). For example, it was not uncommon to have upwards of 22 different activities or programs delivered through at least nine distinct organizations, supported by seven different funders – all within one community. This complexity alone created redundancies and inconsistencies in assessments and treatment approaches (Kania & Kramer, 2011).

The fragmentation also created important gaps in services. Users could access health and social services through different access points and, as a result, faced different eligibility requirements. The point of access for services not only had an impact on the quality of care, with implications for equity of care, but the lack of consistency also created prolonged waiting times in service transition and greater stigmatization of users in some services. A representative from the Newfoundland and Labrador Department of Children, Seniors and Social Development echoes these views:

> We had concerns about accessibility, stigma, equality of care in some instances. People didn’t know how to navigate the system. They didn’t know how to receive the services. People within healthcare didn’t always know how to refer to mental health and addictions. There were many different points of entry into this system, and the waitlists, in many instances, were prohibitive. So, we really needed to take a broader approach. There is much focus on looking at integrated service delivery models now for young people so that they can access services easier. (Interview conducted March 1, 2018)

Other respondents I interviewed highlighted similar trends in client feedback: difficulties and confusion in accessing services when needed, gaps in service transition, redundancies and inconsistencies in assessments and treatment approaches, and ongoing issues with stigma.

By the early 2000s, NPM approaches had come under increased scrutiny. As Osborne has noted (2010: 1–2), “the time of the New Public Management (NPM) has in fact been a relatively short-lived and transient one between the statist and bureaucratic tradition of Public Administration and the embryonic plural and pluralist tradition of the New Public Governance (NPG).” Indeed, at least in the case of Canada, the policy terrain on which health and social delivery systems had developed had increased substantially in complexity.

Dynamics of New Public Governance in the Field of Health and Social Services

Internationally, scholars of public administration were recognizing that the field of governance was changing profoundly (Rhodes, 2000; Newman, 2001). NPM and the contract culture had created an increasingly fragmented and disjointed policy environment. As Osborne (2010) contends, NPG is both a product of and a response to this increasingly complex, plural, and fragmented nature of service delivery. Much like NPM, there isn't a broadly agreed-upon definition of the NPG paradigm. Collaborative governance refers broadly to "the processes and structures of public policy decision making and management that engage people constructively across the boundaries of public agencies, levels of government, and/or the public, private and civic spheres" (Emerson, Nabatchi, & Balogh, 2012: 2). What distinguishes NPG from NPM is the emphasis on a horizontal or networked approach to coordination (Brandsen & Johnston, 2018). What is more, NPG recognizes the intrinsic value that nonprofit organizations bring to service delivery, such as their knowledge of and proximity to distinctive user groups, their ability to tailor services to user needs, their flexibility and ability to innovate, and their ability to mobilize community (Pestoff & Brandsen, 2010).

Rather than taking a command-and-control approach to engaging the nonprofit sector, NPG tends to be more open to experimenting and collaborating in new ways. Although much of the public administration literature has focused on technical and institutional mechanisms to identify the best design that leads to collaboration (Alford, 2015; Bovaird, 2007; Brandsen & Honingh, 2015), I contend that NPG, as a paradigm, is better understood as a process rather than as a set of outcomes. Variations across policy designs can promote or inhibit collaboration, but they do not in and of themselves predetermine the outcomes. Agency (strategy and action) remains an essential variable in the analyses, as networked partners engaged in collaborative governance seek to influence the process in light of the context and of the balance of political forces. As Osborne reminds us, "such networks are rarely alliances of equals but are rather riven with power inequalities" (2010: 9). Governments play a central role in promoting collaborative governance, but whether these opportunities for collaboration are capitalized upon, and how, depends on the ability and capacity of networked partners. Collaborative governance, therefore, is a political process in that the success of collaboration depends on the actors involved, their capacity to shape the process, and, ultimately, how they negotiate their interaction with new partners.

It is also important to recognize that under the NPG paradigm, the power dynamics between governments and the nonprofit sector are changing. With NPM, governments lost a lot of internal policy capacity and must now rely on their network partners' knowledge of front-line issues (Laforest, 2013). The involvement of nonprofit organizations that are delivering programs and services has become vital to effective policy-making and delivery. In this new context, the design of governance arrangements increasingly relies on notions of consultation, communication, and local involvement. There is also a recognition of the democratic potential of these new collaborative arrangements since nonprofit organizations can bring policy legitimacy to courses of action (Rothstein, 2014; Dalton, 2004). Collaboration is viewed as a learning process with space for adjustments on both sides. According to Torfing (2016), "collaboration tends to facilitate expansive and transformative learning, which in turn tends to spur policy innovation."

By its very nature, collaborative governance is a process fraught with tension as actors try to navigate new roles and responsibilities. Hence, it translates into very different institutional arrangements on the ground as partners try to influence the direction of collaboration. Burdened with a more complex policy environment, many provinces sought to increase coherence and coordination by consolidating local service networks and adopting a collaborative governance approach. In most provinces, a lead agency was identified in each geographical area and given responsibility for the planning of services, resource allocation, and system management to support the effective delivery of core services within the community across the continuum of services. The lead agency took many forms, depending on the jurisdiction. BC went from 20 regional boards and 82 community health councils to five regional health authorities in 2002. These RHAs were responsible for identifying their population's health needs, planning appropriate programs and services, ensuring that programs and services were properly funded and managed, and meeting performance objectives. Alberta went from 17 RHAs to nine in 2003, and then to one single authority, Alberta Health Services, in 2008. Similarly, Saskatchewan decreased from 400 healthcare boards to 12 RHAs in 2002. Manitoba established 13 RHAs in 1997, and the number gradually diminished to five following the 2012 reform. These RHAs were given overall responsibility for implementing and establishing a sustainable, integrated system of health services. Quebec went from 146 CLSCs in the late 1990s to 95 health and social services centres in 2004, and then 22 integrated health and social services centres (CISSS) in 2015. Ontario was the last province to adopt a similar approach, in 2006, with the creation of 14 local health integration networks (LHINs).

The consolidation of services at a regional level was a way to coordinate and integrate services horizontally while remaining responsive to local needs (Philippon & Braithwaite, 2008). This consolidation of local networks enabled a system-wide focus on the continuity of care, bridging the boundaries of health and social services within regional areas. A representative of the Manitoba Ministry of Families noted:

> There's been a lot of efforts in Winnipeg in particular, but across the province, to integrate health and social services at the community level. A huge restructuring in Winnipeg of how we deliver services, that began in 2004 and really has culminated in access centres in all of our community areas in Winnipeg, and the idea of colocation and case coordination, particularly on complex cases – primary care right there with income assistance. This isn't just government agencies working together; this is also community and how we can sort of integrate. Quite a few of the committees at the operational level are involved in [a kind of] intersectoral approach. (Interview conducted February 23, 2018)

A similar consolidation occurred within the nonprofit sector as well, as contracts were given to large multipurpose nonprofits willing to scale up their activities to cater to a wide range of constituencies. Nonprofit organizations merged as a means of integrating services and creating greater control over the quality of services offered (Acheson & Laforest, 2014). We see similar patterns of amalgamation in Europe (Crozier, 2010; Peters, 2011; Rothstein, 2009) and the United States (Smith & Phillips, 2016). We also see greater vertical collaboration – connecting both health- and social-care providers across institutional barriers and traditional silos of service delivery.

In most provinces, the restructuring of the system was accompanied by a new funding model that allows the lead agency to subcontract to respond effectively to local demands and ensure that the accountability requirements focus on tracking desired outcomes, quality, and patient satisfaction and engagement. This new funding model allows organizations to move beyond a siloed approach by encouraging them to innovate and cooperate across their specialty areas to address multiple or complex community needs and use space efficiently. It fosters opportunities for intra-organizational coordination and efficiency in building partnerships. In some parts of Ontario, for example, we observed that the responsibility for resource allocation within communities was conferred to the nonprofit sector to redistribute to public agencies based on need. Nonprofits have seen their role shift from one of direct service-provision to one of responsibility for service outcomes and resource allocation, a real reversal from traditional hierarchical approaches to accountability. It was an experiment that was possible because the collaborative process was open and not predetermined.

Another feature of NPG is a focus on the realignment of services in a way that is "people-centred" or "user-centred" (Smith & Phillips, 2016; Bovaird et al., 2013). Traditionally, government policies and services were designed internally, with some ad hoc stakeholder engagement at various stages of the policy process. Now, we are observing the collaboration of professionals and citizens in both the planning and delivery of a service (i.e. co-design and co-delivery). According to Philippon and Braithwaite, "Many commentators note that one of the objectives of regionalization in Canada was to achieve enhanced public participation in decision-making to reflect regional health needs" (2004). This commitment to democratic governance, translated in practice to patient-centred design, was an important innovation driving the restructuring. To make the process more transparent and responsive, users were invited to consult and contribute to the design of delivery systems alongside service providers (Bovaird et al., 2013; Fledderus, Brandesen, & Honingh, 2015).

Such governance arrangements involve citizens and users in the planning, design, delivery, and evaluation of public services from the outset. For example, a representative of the Alberta Ministry of Community and Social Services noted that there is a recognition of "How can we make it more citizen-centred? How can we bring all the services to the client? We have thirty-four programs that are currently integrated within this service delivery model, and that's quite significant" (interview conducted February 27, 2018). Engaging the public is vital to addressing the expectations users may have of their healthcare system. In their mandates, Alberta Health Services and the Ontario LHINs were tasked specifically with fostering community and stakeholder engagement to ensure that local needs drive regional plans. Alberta, for example, partnered with United Way to obtain community input on specific issues. Indeed, many users reported falling through the cracks during the moments of transition because of a lack of system-wide vision. Through user-centred design, client pathways were mapped at a system-wide level, allowing service providers to identify gaps and ensure better transitions across services.

With this new approach comes a recognition of the importance of civic participation in policy design and development (Pestoff & Brandsen, 2010). Voorberg et al. (2015) note that "there seems to be an implicit assumption that involvement of citizens is a virtue in itself, like democracy and transparency, thereby also stressing that co-creation as a process is a goal in itself." But the discourse is complex, and we need to be sensitive to how specific ideas about citizen engagement are actualized. In many provinces, we are seeing a growing emphasis on experiential knowledge and how it can improve the quality of services. This signals a critical discursive shift because it recognizes and celebrates the value of user experience. It is quite distinct from the focus on engaging the "ordinary citizen" in the policy process that dominated in the 1990s (Laforest & Phillips, 2006). The "ordinary citizen" is understood to be a layperson contributing their "common sense" or "ordinary knowledge" to policy discussions, often in opposition to "organized interests" who have a stake in the process (Lindblom & Cohen, 1979). The discourse on experiential knowledge lends value and legitimacy to the knowledge grounded in the user experience. The integration of broader forms of knowledge deemed "valid" into the participatory design process recognizes the problem-oriented nature of collaborative governance and results in a deeper contextual understanding of the problem.

One area where this new form of collaborative dialogue emerges is around performance management systems. There has been a real push under NPG for higher performance because of the underperformance of many contracting arrangements (Carmel & Harlock, 2008; Heins et al., 2010). Rather than focusing on narrow performance targets dictated from the top, community engagement in the field of health and social services has paved the way for developing system-wide performance indicators. This focus on performance is seen as a way to unify and mobilize broad segments of the population in public value creation. Users share their expectations, needs, and experiences, which feed into the design of the system but also become benchmarks for performance within the system (Osborne, Radnor, & Nasi, 2013; Bovaird et al., 2016). Under NPG, the focus is on shared outcomes and impacts within the community. In Ontario, for example, in the field of mental health and addictions, this has taken the form of community mental health reports, which have become benchmarks to build community capacity across the continuity of care. These community reports, combined with user pathways identified through consultations, form the basis to establish metrics for describing and monitoring the "value" generated by the sector in terms of community and client outcome (Osborne, 2017, 2018).

This new performance focus also provides an impetus for collaboration and data-sharing for better or improved policies. As Osborne has noted, this requires a "shared value" approach, where all actors in the system work toward the same goal (Osborne, 2017, 2018). It also leads to a simplification of the accountability requirement. NPM agreements imposed strict top-down accountability pressures on both private and voluntary organizations that entered into contractual agreements. New forms of collaboration, however, have been facilitated by new technologies that allow greater integration of reporting systems and streamlining of data management systems. Through knowledge-sharing, collective knowledge develops around which policy performance can be monitored and strengthened. It is essential to recognize that the regional consolidation has allowed for the development of information- and communications-technology (ICT) systems and greater coordination of the reporting systems on the back end of operations. A representative for the New Brunswick Department of Health noted, "They changed the legislation to allow us to share information. Those are big steps to take. It's taken us years to get where we are" (interview conducted March 1, 2018). Under NPM, it was challenging to implement standardized tools and protocols given the fragmentation of services. NPG was a way to build more transparency, equity, and responsiveness into the system.

Implications for Government–Nonprofit Relations

This study contributes to understanding the new roles the nonprofit sector has come to play in health- and social-services-delivery systems as a result of NPG reforms. While some aspects of NPM remain influential in government–nonprofit relations (Phillips & Smith, 2014), new dynamics that emphasize interdependence and collaboration have created opportunities for organizations to be involved in the design and structure of the new delivery systems. The leadership role of governments and regional authorities has shifted from command and control to supporting collaboration, sharing information, and fostering learning and innovation. Already, we see successful collaborative initiatives around homelessness, mental health, and addictions.

A critical insight that emerged is that relationships between governments and nonprofits are highly contextualized and vary depending on existing local capacity. Nonprofit organizations need to have a built-in capacity to take advantage of these opportunities. In some contexts – in Ontario, for instance – nonprofits have been able to position themselves as lead organizations helping to define community priorities.

Governance arrangements are spaces of information exchange, discussion, and debate. They must be analyzed not only in light of their outcomes, but also in relation to their broader impact on participation and engagement. NPG can play an essential role in expanding forms of participation and legitimizing experiential knowledge. As we have seen, the collaborative governance process makes possible the identification of "shared value" and, ultimately, the development of new tools for coordinating the actions of multiple actors involved across the delivery systems.

As of 2015, patterns of governance for health and social services have shifted again. The overall picture is of a growing tendency toward centralization of responsibility for health and social services at the provincial level. This latest shift may again have huge repercussions for nonprofit organizations across Canada; the governance process can provide access and legitimacy to the sector. At times of centralization, the elimination of governance structures at the regional level constricts the influence of nonprofit organizations, which may have to turn to informal channels to be heard. Further research and individual case studies are needed to understand better how the role of the nonprofit sector in governance is changing once more.

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Biography

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Intersections with Governments: Services and Policy Engagement

Chapter 28

Contentious Collaboration: Third Sector Service Delivery in Quebec

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Among all the changes that have characterized the evolution of the third sector since the 1980s, in Quebec as in most Occidental welfare states, those related to the delivery of social services are the most significant. A rise in the importance of services was fuelled by important demographic and labour market shifts that crystalized in that decade, creating new social risks and leading to new sources of vulnerability and deeper needs within the population (Jenson, 2004). Women's increased participation in the labour force; precarious employment, particularly for men; female-headed households; greater longevity (though not always in good health); and rising levels of insecure migration exemplify the types of situations that posed serious challenges to traditionally available social services. Advocacy groups drew attention to these issues from the start (Favreau, 1989; White, 1997; Jetté, 2008), and community-based organizations were the first responders, devising new kinds of services such as alternative mental health services, employability development, daycare centres, homecare services, and migrant settlement and integration services. The COVID-19 pandemic showcased the interdependency of government and the third sector when it comes to protecting vulnerable populations, such as the homeless. But it also proved that, more than 30 years later, all these challenges remain acute.

In Quebec, repeated austerity measures imposed by governments of all stripes have continued to exacerbate these social problems, even as community-based service innovations have inspired and instigated the adoption of new public programs to deal with them. This chapter describes and explains the strategic influence of Quebec's third sector on the province's unique and evolving service delivery models.

A vast and varied literature has arisen, referred to as "new public governance," that is dedicated to analyzing the evolving relations between states, markets, and third sector organizations in this changing context (Osborne, 2010; Pestoff, Brandsen, & Verschuere, 2013). As the dominant explanation of the changes in Canada and internationally, the new public governance literature has a decidedly institutionalist bent: it tells us that the third sector has evolved as a result of institutional changes in the welfare state, including policy discourses, funding, and partnership arrangements. This set of assumptions and supporting empirical evidence has been applied widely to the third sector operating at the federal level and in many Canadian provinces (Leduc Browne, 1996; 2000; Phillips & Levasseur, 2004; Evans, Richmond, & Shields, 2005; White, 2005; Elson, 2016). This literature is often attentive to the ways in which the third sector has had to strategically adapt its practices to evolving institutional discourses and arrangements (Laforest, 2004). But the presumed responsive stance of the sector is problematic when applied to Quebec (Laforest, 2011; White, 2012a).

To examine the involvement of third sector organizations in service delivery in Quebec, this chapter initially adopts an institutional perspective but then brings in a political perspective. On the one hand, the specific institutional history of Quebec goes a long way in explaining striking differences between government–third sector relations there and in the rest of Canada (Salamon & Anheier, 1998). Until the 1960s, the province's educational, health, and social services, as well as its charity and voluntary sector, were organized at the parish level by a powerful and centralized Catholic Church. Small minority communities remained in charge of their own service organizations. However, during the "Quiet Revolution" of the 1960s, a centralized and activist welfare state was born, displacing the role of the Church by incorporating and remodelling its service-delivery bureaucracies (White, 1997). As Premier Jean Lesage argued in 1961:

> We need powerful means, not only to meet the inevitable challenges that we will face in the coming years, but also to put the French-Canadian people in tune with the present-day world. Now, the only powerful means that we have is the Quebec State, *our* state. We cannot afford the luxury of not using it. (Quoted in Pelletier, 1992: 617, translated by the author)

Most Quebec provincial governments since then have been driven, to different degrees, by a mission to protect and develop a distinct Québécois society within North America, and the construction of an ambitious welfare state has been one of the principal means. To the extent it has succeeded, it has done so through an intensive relationship with the third sector. Indeed, Quebec's third sector experienced its own Quiet Revolution during the same period. Local parish-level groups freed themselves from the influence of the Catholic Church and reorganized to take up the cause of radical social-justice reforms.

On the other hand, this uniqueness also includes the co-construction of a set of operating environments for third sector organizations involved in service delivery that cannot adequately be analyzed as "responses" to consecutive welfare state reforms in Quebec. We need instead to turn to more robust theories of collective action. Quebec's third sector is composed not only of organizations, but also of organizational alliances, formalized as collective action-takers with their own identities and projects (Osborne & Hagadoorn, 1997), able and willing to influence the institutional environment in which they operate. Indeed, these collective actors advertise themselves as "movements."

Focusing on the role of Quebec's third sector in the reconfiguration of service delivery, the chapter describes and explains the recent state-led and community-led drivers of innovation in the realm of social services, with an accent on collective actors – both public and third sector. To illustrate the diverse dynamics involved, it presents four stories of service-delivery innovation, all unfolding since the end of the 1990s: 1) local service networks, 2) social enterprise involved in homecare services, 3) affordable nonprofit daycare, and 4) public–private partnerships between private foundations and government. None of these are unambiguous success stories. The common thread in presenting them is the active – rather than reactive – role of the sector in shaping not only policy, but also the framework within which state–third sector relations unfold in Quebec. The remarkable absence of competitive tendering for contracts and performance-based evaluation in the health and social service sector in Quebec exemplifies the unique institutional dynamics at work there. I begin by defining what is meant by innovation and collective actors.

Collective Actors as Drivers of Innovation

The literature on state–third sector relations suggests that, despite the inevitable asymmetry of the relationship, third sectors push back. We know this because there is considerable variance in the effects on third sectors of the neo-liberal turn that began toward the end of the 20th century, even within liberal welfare states where a "contract culture" came to dominate (Maddison & Denniss, 2005; Phillips, 2006; Casey & Dalton, 2006, Chaves et al., 2004). Moreover, research has shown that third sector organizations have played a variety of influential roles in the shift toward new policies and forms of governance (Jenson, 2004; Dobrowolsky & Saint-Martin, 2005). Numerous authors have pointed out that in many countries, including Canada, social services, social policies, and welfare-state governance have been historically co-constructed and co-produced by the third sector and government (Rekart, 1994; Valverde, 1995; Elson, 2009). In Adil Najam's words, the third sector can play the role of the "policy entrepreneur" who increasingly "collides" with government in the policy stream, as they seek to make government "do things that [it] either refuses to do, does not do enough of, is incapable of doing, or is unable to do" (Najam, 2000: 380).

However, due to different and fragmented civil society trajectories, not all elements of the third sector – and indeed, not all third sectors – are equally organized in ways that allow them to exert influence on public policy. Indeed, state–third sector relations have been demonstrated to follow a range of differing types; for example, from cooperation to confrontation (Najam, 2000) or from sub-contracting to co-construction (Savard & Proulx, 2012). Co-construction refers here to the joint participation of public and third sectors not only in service delivery (i.e. co-production), but also in the development of policy and programs (Vaillancourt, 2009; Jetté & Vaillancourt, 2011). For the third sector to become an effective actor in policy co-construction, it needs to become a collective actor that comes to the table with its own agenda: organizations must unite to construct a collective identity, by naming and framing the logic that drives them (Mellucci, 1995; White, 2012a; Skecher & Rathgreb-Smith, 2015). Without this precondition, the third sector remains a "loose and baggy monster" of individual organizations (Kendall & Knapp, 1994), unable to counter the identities and roles ascribed to its different components by government.

From this perspective, we might say that innovation in service delivery has occurred when the government's view of how services should be conceived and delivered is significantly influenced by the agenda of third sector actors, or when specific programs are inspired by alternative visions or strategies generated, modelled, and promoted by the third sector. This chapter will describe four such experiences. But first, it would be helpful to provide a map of Quebec's third sector. Like all third sectors, it is far from homogeneous, even within the bounds of the social service sector. However, its component parts, or "collective actors," are for the most part well institutionalized, with identities that differ from those of third sectors in the rest of Canada.

Situating Service Delivery Organizations on the Map of Quebec's Third Sector

According to Imagine Canada, there are more than 170,000 nonprofits in Canada, of which 29% are located in Quebec (compared to 28% in Ontario, the second-highest concentration). Quebec's third sector is densely populated, but its structure is distinctive. Hospitals, social service agencies, and post-secondary institutions are all part of the public, not the nonprofit, sector. Therefore, third sector service delivery is carried out for the most part by about 10,000 small community-based organizations or social enterprises. Their funding comes principally from governments (approximately 60%) and, increasingly, from public and private foundations. Individual donations and commercial activities are far less important. In Canada as a whole, social service delivery organizations are usually called "charities" (*organismes de bienfaisance* in French). But this term is rarely used in Quebec, where it evokes the image of traditional, faith-based, and donor-based voluntary associations from an era before the welfare state.

Third sector service-delivery groups in Quebec fall into two main categories: "community organizations" (approximately 5,000) have been active in more or less their current form since the 1970s; and "social enterprises" (approximately 6,000), which came on the scene in the 1980s. One of the principal distinguishing characteristics is the place of commercial activity: it is unheard of in community organizations but required of social enterprises and expected of cooperatives. In Quebec, there is a culturally embedded suspicion of the role of the market in social welfare, undoubtedly inherited from Catholic social teachings and shared with many Christian Democratic states in Europe. Therefore, the birth of social enterprise, particularly in the field of employability development, created serious tensions within the third sector. First, these new types of organizations contracted with government to implement public programs, rather than developing their own alternative interventions closely aligned to local needs. But those designated as social enterprises, because of their commercial activity (e.g. recycling, popular restaurants, services for people with disabilities) were also expected to compete in the market. These fault lines served to construct ideological boundaries between different sorts of third sector service-delivery organizations. And these identity boundaries were respected by government, to the extent each is now regulated according to a different set of policies, developed with the collaboration of the groups themselves (see Table 1).

The government policy for the recognition and support of community action was adopted in 2001 (Gouvernement du Québec, 2001) and consolidated the non-commercial and social activist identity of community-based service-delivery organizations. It had been the government's intention to develop an all-encompassing social economy policy, including social enterprises. However, its plans were hijacked by the Quebec Network for Autonomous Community Action, which emerged in the mid-1990s for the specific purpose of taking control of the policy that was intended to regulate community organizations. Its campaign to define the policy was successful and in this way consolidated the exclusive collective identity of community organizations (White, 2012b). The policy does not address social enterprises, foundations, or nonprofits whose missions do not involve service delivery. Moreover, it also distinguishes between two categories of community action. "Autonomous" community action refers to independent, alternative service organizations, with a self-defined mission that includes citizen engagement, popular education, advocacy, and other non-partisan political activities. "Complementary" community action refers to nonprofit service delivery in the context of government policies and programs.

Both are associated with small, community-level nonprofits that encourage local participation. And the boundary between the two is far from clear in real life; it is constructed through the rules of access to different government funding formulas. Any community organization providing a service in the public interest may obtain project funding or enter into service agreements with government ministries and agencies. But only "autonomous community action" organizations are entitled to apply for three-year, renewable operating grants, with no reporting requirements beyond the submission of their annual report. While most also enter into service agreements, more than 4,000 organizations funded by 48 government programs falling under this policy receive grants to produce alternative social services and to carry out advocacy and popular education activities. More than half of government funding is in the form of such organizational grants (53.5%), followed by service agreements (36.3%) and project funding (10.2%) (SACAIS, 2019). Service agreements are increasing in number and value, while grants are not. However, service agreements are not associated with a competitive tendering process. Consequently, this policy institutionalizes a government-supported, "market-free zone" within the third sector, as it recognizes and supports advocacy and citizen engagement.

This policy was ostensibly "forced" upon the government by the Quebec Network for Autonomous Community Action: it implemented a series of highly effective collective action strategies over a period of almost five years, and in a final match, it successfully played on government's political need to sign the policy into effect. This resulted in a policy largely rewritten by the Network for Autonomous Community Action (White, 2012b). But the Quebec government has always been far more interested in promoting the social economy. In the wake of its experience with the community action policy, it worked hand in hand with the Chantier de l'économie sociale, representing the interests of social enterprises and cooperatives, and in 2008 adopted the first governmental action plan for the development of collective enterprise (Gouvernement du Québec, 2013). A law to recognize and regulate the social economy, and to set up rules and instruments for its expansion and a sustained partnership with government, was finally adopted in 2013. Like the policy for community action, this law establishes an exclusive definition of the social economy: it refers to nonprofit enterprises and cooperatives with a social purpose that, through their participation in the market, contribute to the well-being of their members or the community and to the creation of high-quality jobs.

Through this law and various other actions preceding and following it, the Quebec government has promoted the creation of an "ecosystem" of technical supports and financial levers that have fostered a flourishing of this segment of the third sector (Dorion, 2016). In particular, it has provided platforms for the expansion of social enterprises through their integration in certain social and local development policies; we will take a closer look at two of these in the following sections. Still, innovative private and union investment funds have been the most important factors for the recent growth and diversification of the social economy in Quebec. Moreover, while community organizations have been protected from market influences, the most recent government policies with respect to social enterprises have increased their exposure to the market.

Table 1: Institutional Distinctions within Quebec's Third Sector

	NON-COMMERCIAL ACTIVITIES	COMMERCIAL ACTIVITIES
PUBLIC INTEREST	**Community action organizations** *Governmental policy for the recognition and support of community action – 2001* • Autonomous community action Alternative service delivery Advocacy, citizen engagement • Complementary community action Public service delivery **Public foundations** *Canada Revenue Agency – 1977* Multiple sources of revenue At least 50% of revenues distributed to "charities"	**Social economy/social enterprises** *Law on the development of the social economy – 2013* Nonprofits involved in commercial activities with a social objective e.g. employability services, job creation, community services
MEMBER INTERESTS	**"Regroupements" (peak associations)** Nonprofits representing the interests of community-based nonprofits by sector, place, or scale **Private foundations** *Canada Revenue Agency – 1977* Controlled by private interests Dedicated to charitable causes	**Social economy/Cooperatives** *Law on the development of the social economy – 2013* *Law on cooperatives – 2015* Co-ops involved in commercial activities with a social objective e.g. housing co-ops, food co-ops **Other nonprofits** *Part 3 of the Companies Act of Quebec* e.g. culture, business associations

Private investment in community services has also been growing, through the relatively recent expansion in the number of foundations and, particularly, private foundations (Gagné & Martineau, 2017). Traditionally, public foundations such as Centraide (United Way) have made an important contribution to the financing of community-based service-delivery organizations in Quebec. In recent years, private foundations have proliferated in Quebec, with the province now accounting for 20% of the largest 150 private foundations in Canada (PFC, 2017), including many of the wealthiest family foundations (Phillips, 2018). Not surprisingly, grants by private foundations now account for double those of public foundations, and investments in health and social services are second from the top (Blumberg, 2016; Gagné & Martineau, 2017).[1] But it is difficult to pinpoint the place of community-based organizations as grant recipients, since the categories of health and social services include hospitals and nursing homes, which in Quebec are not part of the third sector.[2] One case of significant private investment in community-based child and youth services will be discussed later in this chapter, as it ultimately served to mobilize private foundations in general to support innovate community-based social-services and social-development projects.

In the following section, we will begin to look at the networked system of service delivery in Quebec as having been innovative from the start, particularly with respect to the interdependency of the public and third sectors in the sphere of health and social services. It has evolved through a contentious but collaborative relationship between community organizations and government that has left a significant portion of community-based service-delivery organizations largely in control of their operating environment.

Local Service Networks over Time

The evolution of the place of the third sector in service delivery in Quebec is tightly bound up with that of the public sector health and social-service system. This system is highly centralized, in the sense of being integrated and coordinated by the provincial government. At the same time, it is place-based. From its inauguration in the early 1970s, the CLSC (local community service centre) – modelled on grassroots community action in the 1960s – was a prominent feature of the system, intended for community-level, primary health and social-service delivery.[3] There are approximately 150 CLSCs across the province, and with their multiple service points they ensure a presence in almost every urban neighbourhood, town, or village. Since the 1990s, consecutive reforms implemented by various governments have merged CLSCs with nursing homes and hospitals, so that today there may be 10 CLSCs in a single metropolitan health and social-service administration.[4] Although their mandates have evolved, and their flexibility greatly reduced over the years, the CLSCs have nonetheless maintained their local presence, not least in the public imagination: everyone has "their" CLSC. One of the principal mandates and specific characteristics of the CLSC has always been to liaise with community-based service-delivery organizations.

Four major reforms have marked the evolution of this local interdependency. The first was the very creation of CLSCs, beginning in 1971 and continuing throughout the 1980s until the completion of the network. Many in the community movement saw the CLSCs as usurping and institutionalizing formerly autonomous community health and social action originating in free clinics and other "radical" organizations that distinguished Quebec's third sector during the Quiet Revolution of the 1960s. But in fact, the CLSCs became strong allies of the community organizations in their local districts. This interdependency was supported by the Health and Social Service Ministry's inauguration, in 1973, of a program to finance local third sector service-delivery organizations. The program was meant to complement the government's limited capacity to meet social needs in non-traditional areas such as women's health (e.g. shelters, family planning), mental health (e.g., community integration and group therapies), and alternative youth services. As such, it supported the autonomous activities of these groups, financing the organizations themselves rather than specific services. This program eventually served as a model for the 2001 Policy for the Recognition and Support of Community Action.

In the wake of the recession of the early 1980s and an accompanying rise in needs, this fund financed a rapid expansion of service delivery by the third sector. Throughout this period, the CLSCs provided organizational and technical support to community organizations in their districts and fostered intersectoral collaboration, for example by coordinating local committees to address specific issues such as mental health or the needs of youth or the elderly. In a second major reform, in 1991, the government sought to institutionalize these emergent intersectoral relations by officially designating community organizations as "partners" in the public-sector health and social service system. But this ascribed identity was strongly rebuffed by the community movement. Its success in resisting what was viewed as the harnessing of community action to public policy was consolidated throughout the decade and culminated in the 2001 Policy for the Recognition and Support of Community Action, including autonomous and alternative community action.

The third and fourth major reforms, in 2004 and 2015, were driven by austerity and were characterized by mergers of different types of public sector health and social-service establishments. The first wave of administrative integration consolidated a trend toward the merger of CLSCs with long-term-care facilities and, in the non-metropolitan regions, with local hospitals. The 92 service-delivery entities thus created were called CSSSs (health and social service centres), and they were to serve catchment areas equivalent to two or three CLSC districts. The definitive aspect of the reform, however, was the "creation" of local service networks, or RLSs.[5] Each CSSS was mandated to coordinate an RLS – that is, to coordinate the collaboration among all private and third sector health and social-service delivery organizations in its territory – this, to the shock of the community movement. It considered that such RLSs already existed and resisted the idea that they come under any form of public authority. However, the CSSSs were entirely preoccupied by their internal reorganization and rarely took up their mandate to coordinate community-based service-delivery organizations within their territories.

The vacuum left by CSSS inaction on the development of RLSs was filled, bottom-up, by community groups. Typically, instead of the new CSSS coordinating community organizations, the case was that community organizations mobilized their CSSS to participate in their projects, and the CSSSs were "obliged" to collaborate to fulfill their RLS mandates. Existing collaborative networks for different populations and problems at the level of the CLSC districts continued to operate as usual. These did not correspond to the official definition of an RLS, which would have covered the entire, larger CSSS district. But the existing CSLC-level networks nonetheless became identified as RLSs. Moreover, for community organizations throughout the province, the RLS mandate served as leverage: a means of legitimately calling for their CSSS to participate in the development of new local networks, partnerships, and initiatives that the community organizations themselves proposed. The CSSSs were generally open to cooperating, as this was how they could show they were fulfilling their mandate, and provided the community-based networks with the technical resources and institutional legitimacy they needed to get their intersectoral projects financed and implemented.[6]

The fourth and most recent reform, in 2015, advanced mergers to a far greater extent. The 92 CSSSs were themselves merged into 22 regional service-delivery administrations, called CISSS and CIUSSS, and health and social service management staffing was drastically reduced. In this hospital-centric restructuring of the Quebec health and social-service system, there was no mention of RLSs, so central to the reform adopted just 10 years earlier. The public sector establishments once more turned all their attention and efforts toward their internal reorganization. But this time, local service networks involving community organizations were faced with a chaotic situation, due to the simultaneous departure of more than a thousand health and social-service management personnel. The abandonment of RLSs to their community-based actors meant that these organizations had to scramble to reorganize the delivery of their services on their own, or with new allies (White & Parent, 2017). The work of these local networks, so salient to the health and social-service system up to then, had become invisible to a government concerned only with public sector administrative reform.

Throughout these most recent changes, community organizations have maintained and even strengthened their own organization of organizations. Mobilizing their traditional innovation and networking skills, they have slowly built up new alliances, in which municipalities and philanthropy are playing a larger role than before. Some of the internal boundaries within the third sector, constructed on the basis of different identities, have been blurred, not least by the place-based RLSs and other local community-based networks, such as community development corporations. Indeed, today – five years after the reform – even the provincial government is once again referring to RLSs. They have survived on the basis of the ability of community organizations to maintain their functioning during the exogenous shock of the 2015 reform, and to convince new partners to fill the gaps left by missing health and social-service institutional actors.

While relations between community-based service-delivery organizations and the public sector in Quebec are long-standing, dense, and unique in Canada, they have also been fraught – encompassing both interdependency and autonomy, support and negligence. RLSs survive, but the relationship has not always been negotiated successfully. In order to explore the processes at work, and their consequences, in more depth, I next present three contrasting programs in which the third sector has contributed to innovation in service delivery, in some relation with the public sector or the Quebec government. Each involves a different type of third sector organization: respectively, social enterprise, community action, and foundations.

Homecare for People with Reduced Autonomy

The first homecare policy in Quebec was adopted in 1979. It called for the professionalization of services that had traditionally been provided in the home by volunteers, parish associations, and nonprofits such as the Victorian Order of Nurses. It mandated that public sector CLSCs assume responsibility for their delivery. Grossly underfunded, this policy quickly ran into trouble, but it would not be until 1997 that a completely different approach would be adopted. That year, a program (PEFSAD – Financial Assistance Program for Domestic Help Services) was put in place to finance social economy enterprises and cooperatives for the delivery of non-medical domestic services to people with some loss of autonomy.

These arrangements had been co-constructed by the government and the Chantier de l'économie sociale in the wake of a government-led Socio-Economic Summit held in 1996. Indeed, this summit, intended to create consensus among social partners around the direction of socioeconomic policy, ultimately created a schism between the community movement and the social-economy movement in Quebec. The community movement quit the summit on the grounds of the government's zero-deficit policy, when it refused to simultaneously pledge itself to a zero-impoverishment policy. The social-economy movement, however, accepted the government's offer of support for social enterprises to fight poverty. Indeed, the premier had announced in his opening speech, "This week, we open the doors to the social economy" (Le Devoir, 1996, as cited in Jenson, 1998, this author's translation).

The summit turned out to be the "birthplace" of the Chantier de l'économie sociale, the principal collective actor behind the development of the social economy in Quebec. The projected potential and promise of government–social economy partnerships was symbolized by the launching of the PEFSAD to fund social enterprises for the provision of domestic services to complement professional homecare offered by the CLSCs. In the five years following the summit, more than 100 enterprises for the delivery of domestic services to people with reduced autonomy had established stable services agreements with CLSCs. But social enterprise – defined as businesses seeking market viability while providing quality employment and pursuing social goals – was an untested framework when this "partnership" was hammered out by representatives of the government and the Chantier de le l'économie sociale. Both the processes and results were uneven (Vaillancourt & Aubry, 2003).

The system struggled in the face of chronic underfunding (Vaillancourt & Jetté, 2009; Jetté & Vaillancourt, 2011). In 2004, the list of services that social enterprises in homecare could provide was extended, adding, for example, personal hygiene services that had previously been offered by CLSC staff. Their workload increased, but the program by which they were financed, the PEFSAD, did not follow suit. Service agreements were based on the number of hours of service delivery provided in clients' homes. Clients paid reduced fees to the social enterprise, as determined by their income level, while remaining costs were covered by the PEFSAD. However, the PEFSAD did not compensate social enterprises for overhead: time on the road, coordination, reporting, and administrative work. Moreover, it was not indexed to inflation. Contracts had lost considerable value since 1997, while salaries and other costs were rising. The social enterprises were expected to manage the costs of such risks. Many were reducing the number of hours of service they provided, in an effort to keep wages at a level that would allow them to retain or recruit staff, for whom working "under the table" was clearly an option. The PEFSAD did not allow for the creation of quality, sustainable employment in homecare services, and the quality of services for the elderly and handicapped eventually declined as well.

In short, while homecare was intended to be a showcase for the social economy in partnership with government, it did not live up to its promise. For a time, some CLSCs had topped up PEFSAD contracts from their own budgets, but this local flexibility is no longer present under the conditions created by the new health and social-service system reform adopted in 2015. These mergers created massive health and social-service administrations, many with well over 10,000 employees scattered over dozens of installations in large catchment areas of up to 500,000 people, in some urban centres, or stretching across vast territories in less urbanized areas of the province.[7] Implications for the former CLSCs, their partnerships with the third sector in local service networks (RLSs), and the nature and role of social enterprise in the field of homecare were not considered in this reform (Aubry & Bergeron-Vachon, 2017).

The disappointing story of social-economy participation in providing public services is not entirely representative of the development of the social economy in Quebec. Overall, there have been many inspiring success stories, as well as challenges (see Bouchard, 2013). Indeed, the case of social enterprises involved in homecare may well constitute the worst-case scenario for third sector organizations involved in the production of public services in Quebec (Aubry & Bergeron-Vachon, 2017). The 2020 pandemic revealed the effects of years of austerity measures in the health and social-service sector on public nursing homes and residences for the elderly, which accounted for more than 80% of COVID-19 deaths. The government promised to invest heavily in the upgrading of nursing homes and residences, including better training and salaries for attendants. But many argue that similar investments in homecare might be a better policy, or at least an essential, complementary one. The fear is that new investments in services for the oldest, frailest, and sickest elderly will come at the cost of badly needed improvements to homecare and domestic help for those still willing and able to live on their own, despite some reduced autonomy.

Social enterprises providing domestic and hygiene services in the field of homecare are principally the creatures of the PEFSAD framework, not its co-constructors (Jetté & Vaillancourt, 2011). Until recently, they have been relatively unorganized. They represent diverse structures, experiences, and perspectives with respect to their hybrid character. Efforts to create more powerful alliances among them have had little success. For example, many are focused on being businesslike, while others are primarily concerned about achieving their social objectives. Differences between cooperatives and social enterprises, and the divide between metropolitan and regional experiences, have also served to stymie the organization of organizations. Without a united negotiating force at the provincial level, they have had little success in influencing homecare policy and programs. Only in 2017 did they finally create the Cooperation Network of Social Economy Enterprises in Homecare.

Their story is in stark contrast to that of the feminist and community movements in the domain of early childhood education, which we examine in the next section.[8]

Early Childhood Education and Care

One of the most celebrated policy innovations in Quebec is universally available early-childhood education and care. Initially based on a nonprofit model, this policy, adopted in 1997, aimed to provide access to quality educational childcare for all, with a modest co-payment of $5 a day ($2 for low-income families). The policy foresaw the establishment of a network of highly professionalized early-childhood education centres (CPEs), regulated and supported almost entirely by public funds and taking the form of a social enterprise or cooperative. Each has its own board of directors, with parent participation. Early-childhood educators were required to be certified, and new college and university programs were authorized for their training. The CPE staff is unionized, and the physical spaces and curricula are regulated. All this contributes to making this policy a relatively expensive public investment – but on par with the average percentage of GDP spent on early-childhood education across OECD countries (Fortin, 2017). More than 20 years later, the cost to parents now lies on a sliding scale from about $8 to $25 a day, based on income. The average income for working women in Quebec is just over $100 per day, making this policy a significant contributor to female labour-market participation in the province: up 13% since 1997, surpassing all other provinces. Although creeping privatization has compromised the quality of care,[9] evaluations of CPEs themselves are excellent in terms of both parents' satisfaction and child outcomes (Laurin et al., 2015; Commission, 2017). Moreover, the policy has had a strongly positive fiscal impact, when its costs are weighed against tax and transfer benefits to the provincial and federal public purses from increased female labour-market participation (Haeck et al., 2015; Forti, 2017).

The roots of this innovative childcare model lie in the feminist and community movements of the 1970s, seeking to promote women's equality through access to the labour market. The demand for public childcare was prominent in the platform of the Fédération des femmes du Québec (FFQ), and cooperative and community-action-based daycare centres became an important feature of the activist third sector landscape. Thus, by 1994/1995, Quebec already had a larger number of children in daycare than any other province (Bushnick, 2006). Left-of-centre governments in the 1980s and 1990s were sympathetic to these demands during their renewal of family policy. After all, childcare and other work-family conciliation policies would make it possible for more women to get jobs, thus reducing welfare roles and helping to fight poverty through labour-market participation.

The unabated involvement of FFQ and community activism also ensured that the existing foundation, experience, and structures in the third sector would serve as a basis for this new policy. In 1995, they orchestrated a Bread and Roses March on the National Assembly of Quebec, demanding radical measures to end poverty, and women's poverty in particular. The political response was open. It resulted in an invitation to participate as social partners in a significant Socio-Economic Summit planned for 1996, where the early-childhood education and care policy was eventually announced. In the intervening time, representatives of the FFQ and the community-based childcare movements collaborated with both political actors and government "femocrats" in the development and fine-tuning of the policy (Jenson, 1998).

Thus, community-based childcare centres transformed themselves into CPEs. Their staff members were already typically well-trained and well-paid, and the passage was smooth. However, consecutive governments of every stripe never invested the amounts of money it would have taken to ensure a network of CPEs that could fully respond to the demand. Public pressure made any lengthy moratorium impossible, so to accelerate accessibility while new CPEs were being developed, the program was extended to regulated family childcare settings, under the supervision of a CPE. And more recently, regulated private daycare centres have been made eligible to offer “reduced contribution spaces.” But these alternatives to the nonprofit CPE model have not yet come to account for most of the growth in the availability of subsidized daycare. For example, in 2018, there were close to 1,000 CPEs in the province, and the government was announcing the creation of 5,800 new spaces in poorly served areas, two-thirds of which would be in new CPEs.

Thus, though threatened, the model of high-quality early-childhood education and care, originally developed and proposed by the women’s and community movements, is still the recognized gold standard.[10] But this model has a significant drawback. In the case of CPEs, as in other similar cases,[11] there has been a complete institutionalization of what used to be community-based, alternative services – to the extent that the distinction between their official third sector status and that of a public establishment would be difficult to detect. However, if the third sector model is also manifestly challenged by creeping privatization, the aim is not to marketize CPEs, or daycare in general, but to increase subsidized childcare spaces on a shoestring provincial budget.

Private Foundations: From Policy-Makers to Community Enablers?

The level of charitable giving in Quebec, as measured by the *General Social Survey: Giving, Volunteering and Participating*, is consistently and significantly lower than in any other province. When controlling for both income and religiosity, however, this difference disappears (Devlin & Zhao, 2017). Still, there is no doubt that charity is not as highly valued as a strong welfare state. Quebecers expect their government to do more, following continental European rather than Anglo-Saxon models of social action, and are generally willing to pay higher provincial taxes than elsewhere to support it. Even Quebec’s most important private foundation, the Fondation Lucie and André Chagnon (FLAC), has chosen to work through government – and community organizations – to steer its funds toward its preferred social innovation projects.

As one of the wealthiest private (family) foundations in Canada, FLAC is also one of the highest philanthropic spenders on social programs. Between 2007 and 2015, it invested $540 million in three health-promotion and prevention programs for children and youth: Québec en forme, to promote healthy eating and physical activity; Avenir d’enfants, to support early-childhood development; and Réunir Réussir, to foster school perseverance. These programs were intended to mobilize community organizations to propose and deliver services in structured partnership arrangements and required them to evaluate their processes and outcomes. These investments were made on the condition that the Quebec government provide matching funds. The government eventually contributed $440 million to these projects designed and administered by FLAC, during a time when its own public health budget averaged approximately $300 million (Fiset-Laniel et al., 2020).

This is a case in which a foundation was clearly successful in influencing public policy (Phillips, 2018). FLAC criticized government for its compartmentalized programs, its short-term thinking, its aversion to risk, and its lack of investment in evaluation. FLAC's own programs, implemented in its own way, would ostensibly outperform typical government programs. To take Avenir d'enfants as an example, it would target so-called vulnerable families, rather than open services to all families. Funds would be channelled through community organizations, but these would be required to develop workable partnerships and business plans before receiving funds; their service delivery would be evaluated and they would be accountable for the results, but they could also receive support and guidance from FLAC personnel *en route*.

The FLAC projects were highly controversial in Quebec for several reasons. First, there was resistance to the idea that the vision and projects of a private foundation could influence government policy. Advocacy is understood to take place in the public sphere, as an act of participative democracy. The ease with which a wealthy foundation could gain access to government, to win financial support for its proposals, and to sit with the relevant civil servants to hammer out the details, was shocking to the community movement. It had been calling for greater government investments in community action for decades; it was never clear where these new provincial funds were coming from.

Moreover, Quebec already had policies and programs in place for children and youth that had been influenced in part by the expertise concentrated in community organizations serving these populations. A second objection, then, was that the FLAC vision, which targeted vulnerable children and families, or youth "at risk," contradicted the more universalistic approach that community groups, among others, had been promoting within government. Third, contrary to the long-standing *modus operandi* in Quebec, community organizations' associations were not consulted regarding these programs, but were rather "co-opted" by the offer of significant funding for implementing them. From their point of view, FLAC was proposing a "common sense" revolution for effective social policy that included assumptions and misunderstandings about social problems and the nature of service delivery, and community-based service delivery in particular. Finally, there were concerns about the extent of direction and oversight imposed on those that chose to participate in these programs. Consequently, a number of community organizations that were clearly eligible and experienced stayed away.

Ultimately, these experiments in social innovation were not successful. Evidence of inefficiency mounted within a few years. Even the most experienced community organizations were bogged down in their efforts to comply with the construction of complex partnership requirements and to produce demanding business plans. Most organizations believed they were already well positioned to deliver the services with existing partners. Jumping through the hoops was extremely time-consuming for them and significantly delayed the start-up of service delivery. In 2015, in full austerity mode, the government declared a moratorium on its participation in the programs. It cited its inability to actually spend the allocated funding, creating a dead surplus in government coffers earmarked for social expenditures. At the same time, the government was implementing a massive, cost-cutting reform of the health and social-service system.

Since then, FLAC – with other foundations in Quebec – has changed its tune. In contrast to the privileged, one-on-one arrangement between FLAC and the Quebec government around the children's and youth programs, new forms of collaboration have emerged involving multiple foundations, community organizations, and different levels of government. The most startling move came in 2015, when a group of nine private foundations, including FLAC, published an open letter to the premier of Quebec – widely publicized and commented on in the press – denouncing austerity and its exacerbation of social inequalities. Out of this experience emerged Le Collectif des fondations québécoises contre les inégalités (Quebec Foundations Against Inequalities Collective) (Berthiaume & Lefèvre, 2017).[12] On its website, the collective defines itself as "a working and vigilance network concerned by the role of the state and philanthropy in the fight against inequalities."

Quebec foundations seem to have been learning from the community organizations that many of them support. The Collectif des fondations represents an organization of organizations, built upon a shared identity, to address issues of common interest and, not least, their relation to government and their operating environment. Most have charitable status with the Canada Revenue Agency, which has until recently severely restricted their advocacy; their actions are therefore of significance across Canada. Aside from advocacy, private foundations in Quebec are now collaborating with public foundations such as United Way Centraide, community organizations, and municipalities by investing in community action projects across the province. One of the most effective programs of this sort has been the Collective Impact Project (PIC) in Montreal, in which FLAC is a significant partner. PIC is an example of the new place-based, intersectoral collaborations developing in the wake of the supposedly defunct local service networks (RLSs).

Conclusion: Resistance through Contentious Collaboration

Third sector participation in service delivery in Quebec is highly institutionalized, but differently so than in other provinces. The reasons for this are in part historical, cultural, and political: the combination of conditions affecting the organization of civil societies is always unique. In Quebec, these include the legacies of a near-monopoly on third sector activity by the Catholic Church until the 1960s; a disinclination to expose the health-and-welfare sector to market forces; and a centralized, high-capacity provincial welfare state, supporting subsidiarity and nurturing civil society allies. The aversion to the market has been challenged by the rise of social enterprise, not to mention increasingly neo-liberal governments. Nevertheless, it remains ensconced in the policy for the recognition and support of community action.

Within this context, third sector service-delivery organizations have actively lobbied to be included not only in program and policy development, but also in negotiating their own operating environment – that is, the rules determining their funding and accountability requirements and the parameters of their autonomy. They accomplish this through their umbrella associations, built upon overlapping sectoral and place-based collaboration among organizations at the local and regional levels and culminating in well-organized provincial-level networks. These umbrella associations are sometimes financed through organizational membership fees. But more often, they receive government grants for their missions to foster, for example, knowledge- and information-sharing, training, partnership development, the mobilization of citizen engagement, and non-partisan political representation, including the publication of briefs, participation in public hearings, and other lobbying strategies on the behalf of their member organizations and the vulnerable social groups they serve.

In their endeavours, they have been unevenly successful. The entrance of social enterprises on the scene in the 1990s, just as the government was increasingly expecting community organizations to implement its policies and programs, provides a case in point. Excluded from the policy for the recognition and support of community action, at the insistence of the Quebec Network for Autonomous Community Action, social enterprises were left more open to being instrumentalized by government, as illustrated by the case of social enterprises in the field of homecare (D'Amours, 2002). The social-economy movement was capable of promoting social enterprise but was clearly less successful in protecting those enterprises from repercussions for working conditions and service quality flowing from their dependence on public or private sector contracts. This, even in the absence of competitive bidding for contracts.

The strategies of the Chantier de l'économie sociale have focused on building collaboration. It has succeeded in institutionalizing the role of social enterprise in the Quebec service sector. It has initiated and supported the construction of hybrid investment consortiums and instruments with contributions from unions, cooperatives such as the Desjardins Bank, and government. It has contributed to the development of relations with the private sector, for example, in the form of contracts for socially responsible purchases. It has developed partnerships with university researchers that have contributed to the structuring of social-economy hubs of mutual learning and support throughout the province and in the rest of Canada. There has been less organization for resistance within Quebec's social economy, however, and less contentious action as social enterprises, particularly in the area of social services, struggle to survive. In the field of homecare, for example, the market for their services outside government is extremely weak, as they target individuals without the means to access private services. While the PEFSAD was designed to compensate, it has proven woefully inadequate. In this case, the risks of failing to organize and to utilize more contentious strategies to resist exploitation become evident.

Community organizations, in comparison, have collectively named and framed their own identity and agenda and have continuously adopted social-movement strategies to pressure governments to respect these. For thousands of organizations that prioritize autonomous community action, this means they are still able to secure government funding to maintain their advocacy and alternative service-delivery activities, even if they also often sign service agreements to implement government programs in order to bolster their capacity.[13] But community organizations are also starved for funds in the current era of austerity and increased needs. The entry of private foundations into the mixture of funding opportunities, once resisted, is now looked upon by many of these organizations in a more favourable light. FLAC's foray into partnership with government resulted in many lessons learned: perhaps more so for foundations than for government or community groups. If that first venture proved to be ill-conceived, more recent projects focus on collaborative alliances among public and private foundations and integrate local community-based organizations' experience, knowledge, and autonomy. As the advocacy activities of Le Collectif des fondations québécoises contre les inégalités illustrates, one of the most significant lessons is perhaps that of contentious collaboration.

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Notes

[1] Note that "social services" does not include health (e.g. hospital foundations) and education (e.g. university foundations), which are also among the top three areas of investment for both types of foundation but are not involved in service delivery.

[2] All hospitals in Quebec are public establishments, and they typically have significant foundations associated with them. Nursing homes are either public or private; some private nursing homes are affiliated with a public sector establishment. Some public nursing homes are associated with foundations.

[3] CLSCs, or local community service centres, are small, neighbourhood-based, fully public establishments. For their history, see White (1997).

[4] These administrative units are known as either CISSSs (integrated health and social-service centres) or CIUSSSs (integrated university health and social-service centres), and there are a total of 22, including five in Montreal.

[5] It was entitled an "Act Respecting Local Health and Social Services Network Development Agencies."

[6] From 2008, almost 50 of these initiatives were documented by the Quebec Observatory of Local Services Networks, until it lost its funding in 2015: http://www.csss-iugs.ca/initiatives (in French).

[7] These mergers contributed to the debacle in Quebec's nursing homes during the COVID-19 pandemic, as employees officially working for one health and social service authority were often moving around between the numerous nursing homes under its responsibility.

[8] The experience in homecare also contrasts with the experience of well-organized community organizations in other domains such as employability development (White, 2012c). This last example bears mentioning because, as in the case of social enterprises in homecare, community organizations in employability development also contribute to the implementation of public programs on the basis of service agreements. They identify themselves in terms of a variety of organizational forms and areas of expertise (e.g. women, youth, immigrants) but, in contrast to those in the homecare field, were well organized in seven different peak associations before entering into the process of co-constructing a partnership with the government. That partnership agreement was five long years in the making. Today, these peak associations continue to influence the development and modification of programs to support people with employment difficulties, on the basis of the specific expertise of each peak association. Indeed, community organizations in employability are represented on Quebec's Labour Market Partners Board. In comparison, social enterprises in homecare have clearly not yet been able to achieve this level of organization and influence on their operating environment.

[9] First, to keep up with the demand, family care was admitted to be subsidized at the same rate as CPEs.

[10] Evaluations of the daycare system note that subsidized family and private daycare is not of the same high quality as that offered by CPEs and does not generally provide the same level of school readiness (Laurin et al., 2015; Commissio, 2017).

[11] The CLSC is often taken as the prime example of community action institutionalized, and in that case, integrated into the public sector. Another example is the Carrefour jeunesse-emploi, or CJE, which was initiated as a community-based alternative action to promote and support youth employment. There are now approximately 110 of them across Quebec, and although still in the third sector, they operate on the basis of generous service agreements with the government and offer an array of relatively standardized services.

[12] Le Collectif des fondations québécoises contre les inégalités. Berthiaume and Lefèvre (2017) note that the language used also changed at this time. Foundations had always talked about poverty, not inequality.

[13] The median organizational mission grant in 2019 was $92,313 per year, with renewal required every three years (SACAIS, 2020).

Biography

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Deena White is a full professor in the Department of Sociology at the University of Montreal. She specializes in political sociology, and more specifically, social policy implementation, as seen through the challenges of civil society groups involved in implementation. She has critically studied new forms of governance such as service partnerships and networks, their impact on the organization and activities of civil societies, and the ways in which civil society groups organize themselves to maintain their autonomy and critical distance, even while harnessed to government programs.

Intersections with Governments: Services and Policy Engagement

Chapter 29

Policy Capacity: Building the Bricks and Mortar for Voluntary Sector Involvement in the Public Policy Process

Karine Levasseur
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Contemporary governing continues to emphasize greater forms of collaboration between government and non-government actors such as the voluntary sector in the development of public policy. As an example of this collaborative spirit, we examine the co-creation of the Manitoba Social Enterprise Strategy (MSES) that involved both the Government of Manitoba and the Canadian Community Economic Development Network – Manitoba Region (CCEDNet). In 2012/2013, the Government of Manitoba initiated structural and policy changes with the goal of promoting jobs and training. Perhaps the most significant change occurred in 2012 when the Employment and Income Assistance Program, more commonly referred to as "welfare," was moved into a new department that emphasized labour-market attachment. With this move, the message was clear: jobs and training are essential for moving citizens out of poverty. Recognizing the significance of this change, CCEDNet approached cabinet ministers and informed them of its policy resolution to grow the social enterprise sector in Manitoba. In the 2014 budget, the Government of Manitoba publicly committed to a partnership with CCEDNet to co-create a strategy to achieve these goals through social entrepreneurship. This partnership involved creating a steering committee, which contained equal representation between the Government of Manitoba and CCEDNet, followed by consultative workshops with social enterprises to identify their needs. Moreover, the steering committee consulted other experts in the field and conducted research to identify best practices for growing social enterprises. The MSES is a strategy that contains six pillars to grow the sector based on 38 recommendations.

Besides formal collaborative partnerships like the one described above, voluntary sector organizations shape public policy in other ways. For instance, the House of Commons Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities (HUMA) met in December 2018 to receive briefs and hear from witnesses with the goal of providing legislative and public policy recommendations to improve the lives of Canadians living with episodic disabilities. Some disabilities are permanent and result in progressive deterioration, whereas others, such as inflammatory bowel disease (i.e. colitis and Crohn's disease), multiple sclerosis, arthritis, and epilepsy, are episodic, meaning that the person experiences a flare-up in their disability but will then go into remission. Some flares are mild and other flares are severe; some may last weeks, whereas others last several months; and most flares occur unexpectedly. The result for Canadians with this type of disability is very real: losses in wages from taking more sick time than the average worker. Yet most Canadian public policy related to disability is designed to provide income assistance when a worker leaves the workforce permanently because of a disability. At this meeting, HUMA heard from voluntary sector organizations that included Epilepsy Ontario, the Multiple Sclerosis Society of Canada, and Neurological Health Charities Canada, which is a coalition dedicated to brain diseases. Many of the briefs and witnesses emphasized how many aspects of Canada's social-safety net require policy change to better support people living with episodic disabilities, such as the Canada Pension Plan (CPP), which has a disability component but is not available for people with episodic disabilities.

These examples of voluntary sector organizations providing input into public policy are quite different. One example is provincial in nature; the other is federal. One involves the co-creation of a strategy in which both partners share power; the other focuses on changing current policy, but not through power-sharing. Despite these differences, there is one core theme: policy capacity. If voluntary sector organizations are expected to become more involved in working with government in the public policy process, their capacity to do so must be scrutinized, and this is where the concept of "policy capacity" emerges. How can charities and nonprofits build policy capacity and nurture meaningful relationships with government to contribute to public policy? To what degree should government nurture the policy capacity of the voluntary sector? This chapter provides answers to these questions and argues that building the policy capacity of the voluntary sector in Canada involves a dual approach. First, the voluntary sector must recognize its crucial role in public-policy development and commit to building policy capacity. Second, government institutions must also transform themselves to meaningfully accommodate voluntary sector organizations and provide opportunities for their participation in every stage of the public policy process. Moreover, government and other funders must better finance this important work.

Policy Capacity in the Voluntary Sector

Policy capacity can be defined as "providing policy analysis and advice, participating effectively, and exerting influence in policy development" (Phillips, 2007: 505) and as such relies on appropriate governance, human, and funding resources.

Governance resources include a commitment from the board to actively engage in public policy. How does a board decide that it is ready for engaging in the public policy process? A starting point relates to the level of involvement. If the board is interested in joining a coalition so that its involvement is more passive, this will require fewer resources than if the board wants to directly spearhead a change in public policy through more direct, active involvement. If it is the latter, the reality is that the process of policy change is a long-term endeavour, particularly when new legislation or new funding are required. Given this reality, the board must allocate resources to this end.

Who will be responsible for this new task? In a recent survey of nonprofit organizations in Manitoba, 41% of respondents indicated that engaging in public policy is the responsibility of the most senior staff person (Levasseur & Rounce, 2018).[1] If the board decides to add this task to the responsibilities of the most senior staff person, the board has to assess whether that person has the necessary skills and knowledge and can realistically achieve this, knowing that it adds to an already demanding workload. Or, will the board reallocate funding to hire a new staff person on a contractual, part-time, or full-time basis, and identify what skills are necessary for a new position? If there are no funds available, the board may opt to establish a new sub-committee charged with this responsibility to interact with government and other partners on public policy matters.

Whichever option is selected, the board must also carefully assess the strengths it can bring to the public policy process. For example, does the organization have in-depth knowledge of the community and legitimacy to raise issues with government? Does it have data that are reliable and useful to public policy conversations? Lumley (2018: 2) argues that the voluntary sector must build better evidence, but this also requires funders to financially support this endeavour: "While individual boards need to prioritize data capacity building … we cannot underestimate the size of the sector's data challenge. Poor data literacy and a lack of technical skillsets limit opportunities for organizations to engage with data-related issues in a strategic way … [F] unders are therefore needed to help [them] offset the[se] costs." The board must also consider its relationship with government, particularly if the organization receives government funding, which can make it challenging to speak out on certain issues.

Once these questions have been considered, the board has to embed this commitment into the culture of the organization, usually in the mission statement or strategic framework. By doing so, it sends a crucial message to staff, clients, volunteers, partners, funders, and others that public policy is just as essential as fundraising, marketing, human resources, and programming. Boards then need to develop policies to guide staff and volunteers in areas of public policy and set limits (for example, the board may approve a policy that prohibits partisanship engagement).

To further build policy capacity, the board must ensure there are learning opportunities for staff, volunteers, and "clients" to gain the skills and knowledge necessary to effectively engage in public policy, including an understanding of the institutions and processes of a Westminster-style government in Canada, how government decisions are made, and which actors to approach. It is then important to discern the government's agenda, which has been articulated through election promises, the Speech from the Throne, mandate letters, and budget; undertake research as needed; and develop a government-relations strategy that frames the policy issue accordingly. Policy capacity also includes the ability to work in coalitions to advance collective public policy goals.

The policy capacity for the sector has been underdeveloped (Phillips, 2007; Carter, 2011; Mulholland, 2010), but certain subsectors have reported more difficulty than most in participating (Statistics Canada, 2004: 47; Voice in Health Policy, 2003). The most extensive research related to policy capacity in Canada's voluntary sector stems from Evans and Wellstead (2014). They surveyed 603 policy analysts working in the voluntary sector in Ontario, Saskatchewan, and British Columbia across four policy fields, including environment, health, immigration, and labour. Their findings give some hope that voluntary sector organizations are making progress in developing their policy capacities: 43% of respondents perceive a high level of policy capacity in their organizations, and 69% indicate that their boards/senior management are actively committed to engaging directly in the public policy process. These are optimistic findings, but Evans and Wellstead (2014: 19) raise some red flags. For instance, they conclude that "only a third of respondents thought their organization's commitment to staffing or training were adequate. Another third indicate that their organization is not doing enough" to build policy capacity.

Policy Capacity in Government

Given that this edited volume is dedicated to the voluntary sector, readers may scratch their heads and wonder why a discussion related to the policy capacity in government is needed. The answer, quite simply, is that policy capacity is needed within government to drive the public policy process – from identifying and defining public problems, setting goals, reviewing options, selecting a policy response, implementing the response, and selecting a policy instrument for evaluation. At the very least, stronger policy capacity within government is needed to "avert policy failure" (Wellstead & Stedman, 2010: 906).

The challenge with assessing the policy capacity of government is the fact that government is not monolithic. That is to say, governments exist at different levels (i.e. municipal, provincial, federal, Indigenous), and even within one level there are multiple departments and programs, all of which can have different levels of policy capacity (Levasseur, 2014a; 2017). That said, the literature suggests there has been a decline in the policy capacity amongst Canadian governments in recent years. Some scholars cite the influence of administrative reforms such as "new public management" (NPM) that repositioned public servants away from providing policy advice toward the administration of policy decisions (Rasmussen, 1999: 332; Peters, 1996). The preference for smaller, leaner governments under NPM, coupled with fiscal restraint, further contributed to a decline in policy capacity (Bakvis, 2000: 71).

Governments must work to build their policy capacity. However, they also have a responsibility to help build policy capacity among their partners. As noted earlier, collaborative governance[2] recognizes the growing interdependencies among governing partners (Osborne, 2006; Rhodes, 1996; Salamon, 2002). In this model, governments must "work across boundaries within the public sector or between the public sector and private or voluntary sector ... [and] ... focus attention on a set of actors that are drawn from, but also beyond, the formal institutions of government" (Stoker, 1998: 93). Collaboration involves working relationships between equals, where partners share authority and responsibility for public policy, in contrast to command-and-control relationships associated with more traditional forms of governing (Aucoin & Jarvis, 2005). Under collaborative governance, we would expect to see governments working with partners, including voluntary sector organizations, to address complex public policy problems.

But what does this mean, exactly, for governments? In short, it means that governments must recognize there is a power differential when working with voluntary sector organizations. When a government department provides funding to a voluntary sector organization, government has the proverbial upper hand in this relationship. My examination (Levasseur, 2014b) of the engagement of health charities in Manitoba during the 2011 provincial election revealed that receipt of government funding is both a blessing and a curse. A reliance on government funding may undermine the independence of the organization to speak out on public policy matters. As one respondent indicated, "[Our] independence is constrained and the withdrawal of [government] funding would be painful … To date, we have been selling our soul for the funding dollar" (Levasseur, 2014b: 279). While receipt of government funding may have an influence, it is not the determining factor in whether a voluntary sector organization builds policy capacity and engages in the public policy process (Pross & Webb, 2003). Rather, Pross and Webb argue that organizations are likely to turn to their core values to decide if engagement is a priority, rather than let government funding influence their decision. To that end, government must work through this power differential and ensure that it is welcoming of all public policy input, including input that may be unfavourable to the government of the day.

Given the sheer size of Canada's voluntary sector, government must also seriously consider which organizations to work with on policy matters. Perhaps the government has an opportunity to work with coalitions, or perhaps it prefers to work individually with a diverse group of organizations. Government must then assess *how* it wants to partner on public policy matters with the voluntary sector. This is a critical point because, as Wanna (2008) notes, there is a continuum of collaborative arrangements that governments can use to engage with voluntary sector organizations. Wanna describes "consultation" as a low level of collaboration that seeks input but keeps power firmly entrenched in the hands of government as it alone decides the policy response. At the highest end of collaboration, we see the building of supportive relationships where governments share power with voluntary sector organizations to collectively decide the policy response.[3] Ansell and Gash (2008) argue that inclusivity of partners, including those beyond government, is essential to meaningful collaboration. At a minimum, we would expect to see governments working with voluntary sector organizations to mutually develop rules and protocols that open up the public policy process. In addition, we would expect to see face-to-face meetings between government and sector leaders on a regular basis to better promote dialogue on public policy issues (Ansell & Gash, 2008). There may also be the opportunity for joint decision-making between government and voluntary sector organizations on certain issues. Regardless of which approach is taken, governments must open up the process to ensure there are meaningful opportunities for voluntary sector organizations to contribute to policy discussions, rather than merely being agents of service delivery.

Finally, government must think through how it will finance this important work and how funding-reform governments can provide greater opportunities for voluntary sector organizations to develop their policy capacity. For nearly two decades, there has been an increase in contract funding (Scott, 2003) that involves purchasing services with pre-defined goals, activities, outcomes, and reporting requirements. This shift away from core funding to contract funding has had negative impacts for voluntary sector organizations (Phillips & Levasseur, 2004; Scott, 2003). Contract funding undermines the capacity of the sector to support non-contract-related tasks, including engagement in public policy. As Forest et al. (2015: 265) remind us, “Without financial resources, there can be no hiring of analysts, no background research, no policy advice, no communication strategy, no mentoring and no evaluation.” Moreover, there is limited funding provided to umbrella organizations, on the premise that they do not provide services directly to citizens. Yet they may be in the best position to build policy capacity and engage in the public policy process on behalf of their member organizations, as well as build much-needed “connective tissue for collective action” (Smith & Phillips, 2015: 68). In contrast, “core” funding supports the entire operation without predetermined budgetary allocations, allowing voluntary sector organizations to have discretion over use of the funding to support their activities, including public policy engagement. To that end, if governments want more involvement from voluntary sector organizations in the public policy process, they will need to rebalance funding to include more core funding and funding to umbrella organizations.

Conclusion: Opportunities to Build Policy Capacity and Nurture Relationships with Governments

In the US, BoardSource, along with its partners, recently developed a campaign called Stand for Your Mission[4] to establish “advocacy” as a core competency of board leadership. This campaign contains three discussion guides — one for voluntary sector organizations, one for museums, and one for foundations — all aimed at helping organizations ground public policy engagement in their missions. The campaign provides templates for boards (such as public policy job descriptions), features success stories of organizations engaging in public policy, and offers an annual US$5,000 award for boards that have embedded advocacy within their organizations and provided strong leadership to support advocacy efforts. In Canada, we lack decently funded institutions that can prepare boards as they begin to engage in the public policy process. Canadian funders of all stripes – private, public, and government – must begin to fund the building of policy capacity within the voluntary sector.

What about those boards that have already committed themselves to building policy capacity? What training is available? Across Canada, there are a growing number of training opportunities. One example includes workshops in Manitoba provided by the United Way of Winnipeg in partnership with CCEDNet and two academics who teach public administration and public policy.[5] One series involves three days of training with the goal of developing a government-relations strategy. There are also stand-alone workshops specific to the political developments in Manitoba. For example, a stand-alone workshop was facilitated shortly after the Progressive Conservative government of Brian Pallister came to power in April 2016 after 17 years of New Democratic Party rule. This workshop recognized that new relationships would need to be built with new cabinet ministers and members of the Legislative Assembly. Given the small political community in Manitoba, senior government officials (for example, deputy ministers) frequently present at these workshops to help voluntary sector organizations understand the public policy so they become more involved and more effective in the public policy process. A formal evaluation is currently in progress to identify the impacts of this training (for example, how voluntary sector organizations make use of what they learned when engaging in the public policy process and whether this training makes a difference in terms of their relationship with government). Anecdotally, participants have indicated that learning about "mandate letters"[6] and "transition binders" has helped them better understand government priorities and find opportunities to advance their policy solutions.

Sandy Houston's chapter in this volume speaks to other opportunities for the voluntary sector to nurture policy capacity, such as Maytree's Policy School, and Allan Northcott demonstrates that advocacy can indeed be taught, as shown by the success of the Max Bell Public Policy Training Institute. The chapter by Marcel Lauzière assesses how foundations have stepped up to enhance policy capacity in the sector. All are optimistic that momentum toward nurturing policy capacity is headed in the right direction. Given that the federal government has eliminated the restriction on non-partisan "political activities" under the old "10 percent rule" (see Chapter 4 by Bob Wyatt), charities may opt to build more policy capacity through training and use it to engage in policy development without fear of running afoul of the regulator. I agree with the optimistic assessment of others in this volume, but governments still need to step up to the table and rethink how funding is allocated to voluntary sector organizations, particularly umbrella organizations, and allow more meaningful opportunities for involvement at every stage of the public policy cycle. Training is essential to nurturing policy capacity, but without more meaningful engagement by governments and better funding, training can take the sector only part of the way to effective advocacy and policy participation.

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Notes

[1] In the 2018 survey, the sample size was 441. Nearly 17% of respondents indicated that someone other than the most senior staff person is responsible for engaging in the public policy process.

[2] This model goes by a variety of names, including "collaborative governance," "network governance," "distributed governance," and "horizontal governance."

[3] Governments may publicly frame the partnership with non-government actors as collaboration, but the partnership may actually share little power, such that it is an "illusory collaboration," according to MacDonald and Levasseur (2014).

[4] This campaign is available at https://boardsource.org/research-critical-issues/stand-mission-advocacy/

[5] In the interest of full disclosure, Dr. Levasseur is one of the co-facilitators for these workshops.

[6] Mandate letters are letters prepared by the first minister (premier or prime minister) for each cabinet minister that outline the expectations of what must be achieved during their tenure. Transition binders are prepared whenever there is a new appointed cabinet minister or a new incoming government and contain numerous briefing notes to identify the key issues, challenges, and opportunities for the department. Upon the election of the Pallister government in Manitoba in 2016, the mandate letters and transition binders were publicly disclosed.

Biography

Karine Levasseur, University of Manitoba

Karine Levasseur is associate professor in the Department of Political Studies at the University of Manitoba. Her research interests include state–civil society relations, accountability, and social policy.

Intersections with Governments: Services and Policy Engagement

Chapter 30

Evolving Relationships with Government: Building Policy Capacity

Sandy Houston
Metcalf Foundation

Over the past 20 years, the Metcalf Foundation has been engaged in helping to create conditions that enable civil society to provide public-policy perspectives to various levels of government.

We have done this for a variety of reasons. We believe society is better served when a broad range of ideas and perspectives inform how we shape our rules and priorities. In a world in which the voice of business is loud and has many channels into government, and in which many vehicles that have presented other points of view – like traditional media – are eroding, it is increasingly important that the insights and values carried by charitable organizations be shared and heard.

The values and practices of charitable organizations are informed by and steeped in service. These organizations are fundamentally concerned with improvement: the betterment of lives, the advancement of prospects, the removal of obstacles and impediments to human progress, or the health of the natural world. From these engagements, they develop considerable expertise rooted in the communities and issues with which they work. Not infrequently, these are communities whose access to and influence upon public decision-making is limited or marginal. Consequently, these perspectives often have limited access to the process of policy formation.

Some of these circumstances have shifted over the past number of years. A greater emphasis is now being placed on consultation as a precondition to major policy changes. In some cases, government policy capacity has been reduced or hobbled by financial constraints or restrictive risk parameters. An increasing emphasis upon innovation throughout society, including government, has meant a greater interest in non-traditional processes and sources of new thinking. Charities, in their efforts to deliver programs and services as effectively and completely as they can, and usually within the constraints of limited funds and resources, can be potent innovators. Driven by people with a strong commitment to service, charities are well positioned to be able to find the best ways to connect new practices and findings by linking the lessons of grassroots work to larger policy frameworks. Recognizing that this can be an important contribution, there seems to be a greater receptivity within government for submissions from civil society, and a corresponding increased interest within parts of the sector to engage in policy work.

It's important to note that while the nonprofit sector in Canada is enormous, most organizations are small and many of them are concerned exclusively with the delivery of a specific form of service. Their interest and ability to engage with policy is limited. It is a much smaller group of organizations that are drawn to the potential that engagement with policy has to effect change at a systems level. Their interest, however, in policy work is growing. In response, there is also a small group of funders, largely private, that focus on policy and in some cases on increasing the skills and capacities of nonprofit organizations to engage effectively.

This landscape remains complicated by two factors. First, a long-standing lack of clarity around the rules governing the sector's ability to engage in policy; and second, the sector's capacity, both human and financial, to undertake this sort of work.

Shifting the Relationship Between Government and Civil Society

Until the more recent and welcome clarifications by the current federal Liberal government, the rules governing the sector's engagement in policy and its close corollaries – advocacy and "political activities" as defined by the CRA – caused considerable confusion within parts of the sector. Despite the CRA's best efforts, many organizations struggled to distinguish between permissible and impermissible activities and the degree to which they could devote resources to this form of work. This lack of clarity resulted in a reluctance in some quarters to engage in any aspect of this work. This was likely compounded by the political activity audits initiated by the Harper government, which contributed to the impression that there was substantial regulatory risk to getting too involved in policy/advocacy/political types of activities. This perception, which seemed to be fairly widespread, likely contributed to the cautiousness felt by some boards of directors of charities, as well as some funders. The effect was twofold: some organizations held back their engagement in this arena, and in some cases, funders restricted or refrained from funding this type of work.

More recently, the message from Ottawa has changed. The government has taken a variety of steps ranging from changes to the Income Tax Act to inserting language in its mandate letters on the value of input from the charitable sector. These steps signal both the legitimacy of sector involvement in policy conversations and the importance the government places on receiving advice and guidance from charities.

So given these circumstances, what is the state of the sector's relationship to the government? In a word, it's evolving. While there are an increasing number of organizations within the sector with a strong interest in policy and engagement, their capacity to do this work at a high and effective level is constrained by a number of factors, including money, people, processes, and opportunities.

Strengthening Policy Relationships

To do this work well requires people with considerable skills. They must have a strong grasp of both substance and process. For an organization to hire and retain such people requires adequate funding to enable the work and a sufficient scope of work and purpose within the organization to attract the calibre of people necessary to do the work well. Typically, there isn't significant money available for these purposes. With some notable exceptions, it is fair to say that not many funders focus on supporting policy work. Nor does government typically flow money toward policy work within nongovernment organizations.

These financial constraints leave organizations attempting to pursue policy work on a shoestring, with an inevitable toll on the calibre and robustness of the efforts. Clearly, there is much to be done both to build the human capacity to do policy work well and to strengthen the financial foundation – both public and private – for organizations pursuing this type of work. A couple of effective initiatives addressing the capacity challenge are the Max Bell Public Policy Training Institute, described elsewhere in this book, and the Maytree Policy School. Both serve to better equip advocates to effectively undertake this challenging work.

Another significant consideration in moving this evolving relationship forward is government's capacity to receive policy inputs from the sector. In many cases the process is ad hoc. An organization identifies an issue it considers a priority and goes about making the necessary case in hopes of provoking a change or adjustment in policy. The target for such an initiative may be a bureaucrat, a political staffer, or a politician. In many cases the submission is unexpected and uninvited and may or may not be something the receiving party is in a good position to absorb – far less act upon.

This raises the question of how best such policy advice should be brought into government. At whom should it be aimed? What form should it take? How significant are considerations like the size and scope of the constituencies or the organizations that stand behind the work? How does government determine the relative weight or credibility to be given to these submissions from particular organizations or coalitions?

Some of these questions can be bypassed when policy advice is relationship-based. There are occasions when leaders in civil society have developed relationships of trust and confidence within government. Under these circumstances, while access and influence become more likely, they remain situational and opportunistic.

If we are trying to formalize a more effective process to manage and strengthen policy relationships with government, do we need to think about some form of consolidation or the creation of a more enabling structure for how the sector provides input into government?

Promising Examples of Collective Engagement

Some of the most effective policy contributions that I have seen over the past few years have emerged from the coordinated efforts of self-organized groups who collectively represent significant constituencies of organizations and interests. This form of coalition arguably makes it easier for government, as they know that the positions and rationales put forward represent the consensus of a meaningful cross-section of the field. Such initiatives are made stronger still if there is, underpinning the work, both clear expertise together with knowledge derived from practice and experience at the grassroots.

A fairly recent example of such an approach was the National Housing Collaborative. This pan-Canadian alliance comprised a group of major nonprofits, private housing associations, and major foundations. The collaborative's work was organized by contributing organizations and a small secretariat and hosted by United Way Toronto & York Region. Over the course of a year, the group worked to provide the federal government with a set of recommendations toward the creation of a national housing strategy. This initiative emerged from a recognition that the formation of such a strategy was a priority for government and that such inputs would likely be well received. The result of the process was a series of significant federal funding commitments and policies aimed at strengthening social housing across the country. Notably, the funding support for this important initiative came from a small number of private sources.

Another example of organizing and synthesizing input into government policy and priorities is the Green Budget Coalition. The membership of this organization consists of 20 of Canada's leading environmental and conservation organizations. Each year they make submissions to the federal government regarding environmental priorities for the year. These recommendations represent the consensus view of the coalition's members. The appeal for government lies, in part, in knowing that should they choose to take up some or all of these directives, they won't have to navigate each policy position with each NGO. Instead, they can count upon support from a significant body of influencers. In 2017, the Green Budget Coalition provided substantial impetus and support for a large budget allocation toward the federal government's commitment to achieving its international goals to increase the portion of land protection in Canada. (From my perspective, the Green Budget Coalition efforts helped bolster the case both for it as a priority among competing interests at the cabinet table and for the allocation of significant funds to achieve the commitment.)

Canada's Ecofiscal Commission is another striking example of an innovative structure designed to provide government with practical and credible policy recommendations. Created primarily to provide expert non-partisan policy advice to government on how to address pollution largely through pricing tools, it was made up of a number of nationally recognized economists, backed by an advisory board of prominent leaders from business and the environment, and drawn from across the political spectrum. It was supported by a small secretariat housed within a university. The commission's operations were supported by a group of private and corporate foundations with an interest in environmental policy and the transition to a low-carbon economy.

Over the course of six years beginning in 2014, Canada's Ecofiscal Commission released a series of substantive policy papers focusing on various aspects of land, air, and water pollution and possible market-based solutions like carbon and congestion pricing. Their work was amplified by strong strategic communications and the credibility and effectiveness of the chair. The results provided the groundwork for significant movement by both federal and provincial governments to engage with and implement the case for pricing tools to manage pollution.

Opportunities for Working Within the Policy Realm

These examples also speak to the question of opportunities. As noted earlier, much of the sector's efforts on policy inputs emerge from their own priorities and values. Yet often the most effective policy inputs result from opportunities created by a political agenda. These are the cases where government has decided it wishes to shift direction or take up a new strategy. Under these circumstances a window may appear through which civil society can provide perspectives, research, and evidence, including lived experiences, that can augment the government's thinking and approach. A couple of notable examples from Ontario over the past 18 years illustrate the potential of this approach.

When the McGuinty government announced in November 2003 that it was considering creating a new greenbelt around Toronto to address issues of sprawl, congestion, and loss of valuable farmland, environmentalists, urban planners, sustainable agriculture practitioners, and others saw a rare opportunity to help shape a generational initiative. Over the course of the next year and a half, while the government deliberated and gathered evidence, various organizations aligned to advocate and help conceptualize and buttress the opportunity. These efforts were greatly assisted by the work of a small, credible non-partisan urban research organization called the Neptis Foundation, which produced a steady stream of expert research-based papers that served to ground the issue in evidence and data. The combination was highly effective and contributed to the creation of a large, robust, and now highly regarded greenbelt in southern Ontario.

A somewhat similar opportunity arose around the issue of poverty reduction, again under the McGuinty government. In 2007, the government signalled a desire to tackle the perennial issue of poverty in Ontario with a focus on reduction. This in turn provoked sustained efforts of coordination focused on aligning recommendations and communications across the activist community. The effort, given the complexity of the issue and range of organizations and perspectives involved, wasn't entirely successful, but it did model a way of working within the community sector and its funders that has influenced a number of social justice initiatives in the years since.

These examples illustrate how intermediaries and coalitions can play an important role in harnessing the strengths and mitigating the weaknesses of the sector as it advances its work in the policy realm.

There are, of course, highly effective policy engagements with government that do not follow these patterns. These can range from policy experts rooted in sector experience underwritten by a foundation – like Metcalf's Innovation Fellowship Program or Atkinson's Fellowship in Public Policy – to organizations that focus primarily on policy formation and communications.

Creating Conditions for Success

Growing emphasis from governments on the importance of consultations with sector representatives, as well as the creation of subject-specific working groups and advisory bodies in support of policy formation, are certainly positive developments that point to an increasing recognition of the value the sector can bring to strong policy-making. However, these kinds of processes are often ad hoc, demanding of participants' time and energy, and also under-resourced. Charities engage in this work because the opportunity to have a voice on crucial issues is irresistible and carries the promise of significant change. But being organizations where demand almost always outstrips supply, often they must do so at considerable expense to other aspects of their work.

I believe we have reached a point where both public and private funders should be focusing intentionally on how to put the sector's role in the policy-creation process on stronger and more sustainable footing. This means not just creating a more enabling financial underpinning for organizations engaged in this work, but also recognizing the need to invest in training, and the creation and support of more policy-focused roles within organizations. Such a shift should also entail a more deliberate effort to provide these positions with structured opportunities to learn and acquire the experience and confidence necessary for effective professional development.

For the sector to meaningfully engage in the policy process involves more, of course, than simply providing advice and input. More ambitious efforts require the support of strong communications and even freestanding government-relations expertise. Rarely does a policy initiative emerging from the sector have the benefit of these crucial elements. When they do, though, not surprisingly, the impact and effectiveness of the work is greatly increased.

Far too much of the current effort to assist charities in taking up these roles is dependent upon the resources of a small group of foundations. If government is to move to a more collaborative model, it will need to invest in the capacity of its partners to participate meaningfully. The implications of such collaborations extend to creating better, more efficient, and targeted processes to manage and receive inputs.

Ultimately, I expect that much will depend on the calibre of these exchanges and the value participants find in the engagement. The likelihood of this approach being successful can be amplified by not only higher and more sustained levels of investment, but also in a focus on creating more familiarity with, and respect for, the other. Programs like structured secondments for policy people between government and civil society organizations could do much to create the conditions for success.

To put this relationship on a more robust and sustainable footing will require some long-term thinking about creating conditions for success. The impetus for such an undertaking can come only from the government and will ultimately be driven by its recognition of the public benefits that would follow from a policy-formation process that is informed and enriched by a sector engaging at full capacity.

Biography

Sandy Houston, Metcalf Foundation

Sandy Houston is the long-standing president and CEO of the Metcalf Foundation. Much of his current work is focused on creating opportunities for innovation and collaboration and in advancing new thinking and policy approaches within civil society. Prior to joining Metcalf, Sandy practised civil litigation at Oslers and was a founding partner of Canada's first law firm to focus predominantly on alternative dispute resolution.

Intersections with Governments:
Services and Policy Engagement

Chapter 31

Reflections on Teaching Public Policy Advocacy Skills

Allan Northcott
Max Bell Foundation

Canadians benefit from a strong civil society that functions in multiple ways, including serving the interests of the vulnerable, building social cohesion, enriching the public discourse, and informing the development of public policy. It is this last function – public policy development – that is the focus of this chapter.

Civil society organizations have long played a range of roles in public policy development. One of the assumptions of this chapter is that they should, and they should do so to the best of their abilities. That is also the key assumption behind the mission of Max Bell Foundation (where I have worked since 1998), which in essence aims to support Canadian charities that seek to inform public policy decisions.

By the early 2000s, we had come to understand that it is not only financial support that charities need to advance their policy proposals. In many cases, they need professional development too. Many charities have unique hard data, research expertise, deep frontline experience, convening power, and "campaign" skills (more on that below), but relatively few have the skill and understanding required to effectively advocate to influence public policy.

Effective public policy advocacy amounts to providing good policy advice to governments. One can hardly do better in defining what that means than Liz Mulholland in her (2011) summary: good policy advice is "*sound* fiscal, tax, regulatory, programmatic, and other policy advice that governments can *feasibly* implement *without unwarranted political risk* and with reasonable *confidence* that it may yield the desired end goal" (Mulholland, 2011; emphases added).

Max Bell Foundation was inspired to learn, in late 2005, about an initiative of the Maytree Foundation in Toronto. Maytree had launched a training program for Toronto-area charities to help them understand and participate in the public policy process. Their program was called the Public Policy Training Institute (PPTI). After attending the sessions, seeking Maytree's advice, and with Maytree's blessing, Max Bell Foundation launched an Alberta-based PPTI in 2008. (The model has since also been reproduced by the United Way of the Lower Mainland in British Columbia).

Max Bell Foundation has delivered the PPTI annually since 2008. With each passing year, we're more confident that providing professional development for charities that want to do public policy advocacy helps fill an important and largely underserved need.

Defining Public Policy Advocacy

Many of the public policy innovations we enjoy as Canadians may not have been developed at all without the guiding influence of our charities. Regulation of tobacco products, removal of bisphenol A from baby bottles, high-quality mental health services, the registered disability savings plan, the elimination of acid rain, et cetera, et cetera – the list is long and growing by the month. All of these have emerged as part of our social fabric in large part because of the expert interventions of Canadian charities. Canadian society is much the better because of this dynamic.

That said, the reality is that few charities undertake public policy advocacy in either a systematic or sophisticated way. Based on survey data from 2015, Imagine Canada estimates that about two-thirds of charities report doing some public policy advocacy at least once a year. At first blush that sounds like a lot, but two-thirds of those do it "a few times a year or less." About half of those charities that claim to be doing public policy advocacy do little (or nothing) beyond sending information to elected or public officials (Lasby & Cordeaux, 2016).

Among charities that see contributing to public policy as important to achieving their missions, most identify a lack of expertise within their organization as a key barrier. Max Bell Foundation's unpublished surveys indicate it's almost as important a barrier as lack of financial support to do the work.

Given this shortage of expertise, it should be no surprise that many of the individuals who enter the Max Bell PPTI bring with them a handful of assumptions that need to be unlearned. Chief among these is that public policy advocacy is roughly equivalent to developing and exercising political leverage. This assumption finds expression in beliefs such as:

- "If only I could have 15 minutes with the Minister of X, I could make my case, she would 'get it,' and then the problem would be resolved after she tells her underlings what to change";
- "If only party X were governing rather than party Y, this wouldn't be an issue"; or
- "If I can get enough people to send emails or letters to an elected official's office, she'll see how important this issue is to the electorate and will do what we want her to."

No doubt there are times when each of these beliefs is accurate, but they would be the rare exceptions. One could fill a volume with explaining why these tactics are unlikely to lead to success in securing public policy change. In the PPTI, we offer an explanation by spending considerable time helping participants understand how governments actually work, how specific decisions get made, and the enablers and constraints on those decisions. We often sum things up by noting, among other things:

- By sheer numbers alone, most of the decisions made by governments are not made by ministers. Taking up the precious time of ministers with issues they do not normally deal with is likely a poor tactic, and one that may limit the odds of securing future meetings. It's a far better tactic to elevate your policy "ask" only as high in the hierarchy of government as it needs to go to be resolved. On the big issues that are the proper purview of ministers, they can (and often do) say "no." Getting ministers to "yes" on issues usually requires significant government process and often requires the minister to dip into her own political capital. That all can and does happen, but rarely.
- Good public policy advocacy will advance an issue regardless of the political party currently governing. You may not get the "win" you want with a particular government, but you can keep making incremental progress. If the issue you're concerned with isn't a priority for the current government, you have an opportunity to improve the quality of your policy proposal and to build positive working relationships with public servants. Moreover, the more difficult issues (poverty, homelessness, climate change, etc.) will almost certainly transcend any particular party's term in government, so you should have a longer-term strategy anyway.
- Elected officials receive petitions, form letters, and boilerplate emails all the time. They are informed and sometimes persuaded by them, but they already operate with quite sophisticated ways of assessing just how important this or that issue is to voters. Besides, governments typically already have very full agendas of issues they're trying to deal with.

It's this last point, I would argue, that is central to distinguishing *public policy advocacy* from other kinds of efforts to secure a particular decision from government.

Public policy advocacy is about helping governments do better at something they're already doing, or do well at something they've already committed to doing. It's not about trying to persuade governments to add or remove things from their agendas.

That advice is often puzzling to charities. Some disagree with it quite strongly. Based on my own experience with the more than 200 people who have completed the PPTI, I'd suggest the following reasons why:

Misapprehension About How Governments Work

While most of us have had a class or course on civics, few remember it particularly well. The inner workings of government are, by and large, a mystery. It's a generalization, but I'd suggest that for most of us, the gap in our knowledge of government is filled largely by media narratives. Even for those who are curious and attentive, much of what we're able to learn about government comes through media, whether it's credible reportage or not. Media versions of government activity tend to be oversimplified, spun to be provocative, and almost always framed in terms of partisan battles.

Even for citizens who think of themselves as relatively engaged, connection to the operations of governments seldom goes beyond attending to media stories, voting, and maybe occasionally signing a petition or writing to an elected representative (Turcotte, 2015). Getting a reasonably accurate picture of how governments actually operate requires a significant commitment of time and energy.

Real vs. Ideal

Charities have missions related to making the world a better place, in all the myriad ways that gets defined. Not only do these organizations want to make the world better, so too do the individuals who make them run. Those in charities work toward visions, inside organizational cultures shaped by a shared commitment to improving the lives of others and usually alongside colleagues who share a personal commitment to social change.

This is perhaps the greatest strength of charities. A culture oriented toward an ideal future, strengthened by the mutual commitments of colleagues toward that future, can be a powerful engine for change and a source of organizational resilience. However, as Witt (2018) notes, "unfortunately, in many cases in the nonprofit sector, we've professionalized the community out of the community sector. Often times, professionals in the sector are creating and delivering their own 'expert' solutions, with limited involvement and feedback from the communities most affected." Our idealism, especially when it skews toward insular, can sometimes separate us from hard realities.

Public servants and elected officials generally share this same commitment to the public good. However, public policy gets made in a very non-ideal world, in very non-ideal ways. There's a great old saying that the two things you never want to see are sausages being made and public policy being made.

Public policy is typically made under limited time and information constraints by people trying to balance competing (or contradictory) ideals, all while responding to practical demands. It is almost always the result of a series of negotiated compromises. As Bismarck is quoted as saying, "Politics is the art of the possible, the attainable – the art of the next best." Next best, or compromises, can be difficult to accept for those deeply committed to grand ideals.

The Tools at Hand

Many charities have a "campaign mentality" woven into their operating culture, for two reasons. First, many take some kind of social change as their core purpose and have strategies, tactics, lines of work, rewards structures, and cultures designed around that purpose. Second, charities typically have fundraising as a deep organizational priority, and structures and processes oriented to it. The fundraising prerogative is so deeply embedded in the culture of charities that the term "campaign" is common shorthand for the range of activities intended to secure financial support from different categories of donors.

When one has a useful hammer, all problems can begin to look like a nail. The same set of tools and approaches that are successful in raising funds, or making broad social change, are not necessarily the best tools and approaches for doing public policy advocacy.

Given these factors, it is no surprise that charities need to unlearn some assumptions and shift gears in order to find success doing public policy advocacy.

Above I suggested that charities often assume public policy advocacy can be equated to adopting a "campaign" approach and exercising political leverage. By "political leverage," I mean efforts to make change by engaging with and mobilizing groups of people, who in turn exercise influence or pressure on others. This includes the range of activities parties undertake in the exercise of partisan politics, but it can take other forms as well, including "engagement organizing" (Price, 2017) and "spreading social innovation" (e.g., Etmanksi, 2015). I want to emphasize that this kind of work is essential to a healthy democracy, worthy of doing and supporting, and potentially very effective. As I'll suggest below, it can also be an essential complement to more targeted policy advocacy.

That said, political leverage is different in kind from public policy advocacy. Political leverage seeks to change thoughts and behaviours of groups of people, who will then (it's hoped) carry forward and change larger systems (through consumption patterns, voting patterns, public discourse, etc.). By contrast, public policy advocacy seeks to inform particular policy choices made by a relatively small number of elected officials or public servants. Generally speaking, the way political leverage can shape decisions of governments is by influencing *what* gets on their agendas. Public policy advocacy does so by influencing *when* and *how* issues on a government's agenda get addressed. The former is sometimes referred to as an "outside" campaign; the latter, an "inside" campaign.

For example, the policy decisions related to reducing greenhouse gas emissions currently in place in Canada are rooted in a long history that involves both political leverage and public policy advocacy. Canadian climate policy can be traced back to at least 1987 and the publication of the Brundtland Commission report. Between then and the 1997 Kyoto Protocol, much of the work in developing climate policy in Canada could be characterized as "political leverage." Many civil society organizations used a range of tools (demonstrations, public education campaigns, newspaper op-eds, letter-writing campaigns, etc.) to exercise the political leverage that played roles in the federal government's decision to sign on to the Kyoto protocol in 1997 and ratify it in Parliament in 2002.

Once climate change was clearly on the agendas of Canadian governments, attention began to shift to policy options. During the decade following Canada's ratification of Kyoto, three broad policy options took shape: regulate emissions, subsidize technologies and behaviours that reduce emissions, or put a price on emissions. Many civil society organizations have undertaken public policy advocacy to improve understanding of and advocate for the implementation of some combination of these policy options. The tools they use to do so, however, are not the same tools used to get the issue on the government agenda in the first place. They are more likely to include things like policy-oriented research, knowledge mobilization, stakeholder consultations, targeted meetings with public servants and elected officials, et cetera.

Dividing the history of policy development as in the example above is, of course, an over-simplification. It does, however, illustrate the distinction between "political leverage" and "public policy advocacy." Getting to a desired public policy change often requires both, and may even require both at the same time (e.g., "keeping up the pressure" while "developing a solution"). But they are two *distinct* strategies, requiring *different* activity sets, skills, and resources.

Before offering an account of how the Max Bell PPTI aims to improve the skills and knowledge related specifically to public policy advocacy, let me turn first to the question of why a charity would invest any of its scarce resources in doing it.

Why Undertake Public Policy Advocacy?

For virtually all charities, resources are scarce. Most charity CEOs I've had the good fortune to know spend considerable energy trying to maximize the positive impacts of the resources they have available. That often translates to seeking to deliver only the most effective programs, targeting efforts where there is the least overlap with other organizations, collaborating when it makes practical sense, strategizing over "root causes" of problems, and trimming expenses wherever possible.

Public policy advocacy seems, at first blush, a poor fit with these imperatives. Public policy advocacy takes place in a complex and uncertain context. Its outcomes are inevitably uncertain, and – at best – it may yield a negotiated compromise. So why do it? Well, above I offered the beginnings of a list of public policy "wins" that have dramatically improved Canadians' quality of life, and that wouldn't have happened were it not for the efforts of charity leaders. When it's successful, policy advocacy can produce very powerful mission-specific outcomes. Aggregating up from more specific policy issues, I'd add two more general arguments for doing policy advocacy.

To Strengthen Democracy

The contemporary geopolitical space drives home the point that we cannot take democracy for granted. The quality of a democracy depends on considerably more than citizens turning out to vote in elections. The overall health of our democracy can be measured, in part, by the extent to which those votes are informed and motivated by citizens engaging with each other around public issues. Many Canadian charities, in their missions, actions, and volunteer bases, are elemental expressions of citizen aspirations to participate in collectively caring for each other and governing ourselves. As such, they are an important platform for engagement between citizens and the elected officials and public servants who act on their behalf.

To Leverage Expertise in the Pursuit of Public Good

Through their delivery of essential publicly supported programs, many charities acquire a wealth of knowledge about how government policies affect people's lives. Charities are well placed to study, assess, and comment on those policies. Beyond service delivery, their expertise is a vital source of information for governments to help guide policy decisions. It is therefore essential that charities continue to offer their direct knowledge of social issues to public policy debates.

Furthermore, governments need good advice. Much has been written about the diminishing capacity of governments in Canada – at all levels – to do the kind of policy development necessary to respond to the challenges we collectively face. At the same time as their resources are shrinking, governments are facing heightened scrutiny and expectations from an electorate that itself is increasingly diverse. Canadian charities can help in a range of ways, including bringing frontline knowledge to bear, convening stakeholders, facilitating and informing dialogue, delivering and assessing demonstrations and pilots, and providing neutral spaces for engagement.

Adding to the practical rationale for charities to engage in policy development, Roger Gibbins (2016: 1) makes a compelling case that they have a moral obligation as well. He argues that the obligation

> … extends well beyond charities that are contractually involved in the delivery of public services. Charitable status and the financial benefits it conveys create a moral imperative to pursue the public good and to be engaged as policy advocates in political and ethical debates about policy and social change. The very concept of a charity carries with it an obligation for policy advocacy that sets charities apart from the private and more broadly defined non-profit sectors. In short, charitable status confers a privileged position that comes at a price: that charities necessarily assume a moral obligation to pursue the public good.

Since 1998, Max Bell Foundation has fundamentally taken on board these arguments for doing public policy advocacy. The PPTI has become one of the key ways we deliver on our mission to develop innovations "that impact public policies and practices." The structure and content of the PPTI has evolved since it was first launched in 2008. Twelve years in, it includes the following elements.

The Max Bell Foundation Public Policy Training Institute

Many non-governmental funders who seek to engage the public policy process, either directly or by supporting other charities in their efforts, do so with a particular perspective or public policy objective. The Max Bell PPTI takes a different approach. Representatives of charities are admitted on the basis of their interest in policy advocacy and their organization's capacity to apply the lessons of the PPTI in pursuit of their own missions, whatever those may be. Max Bell Foundation is agnostic about the policy objectives of PPTI participants.

Brenda Eaton (2014), who has served on the Max Bell PPTI faculty since inception, summarizes the program concisely:

> The program has three objectives. The first is to enhance participants' understanding of how federal, provincial, and municipal governments make policy decisions, so that they can participate more effectively in the public policy process. The second objective is to provide participants with training in how to develop practical and workable policy alternatives through both formal and informal learning formats, which include lectures, case studies, readings, panel discussions, group work, and one-on-one discussions with the faculty. The third objective is to have each participant make significant progress on a public policy issue that would improve his or her organization's ability to accomplish its mission.

A broad array of nonprofit organizations has participated in the Max Bell PPTI. Their missions are focused on social services, health, agriculture, environment, volunteerism, housing, and many other public issues. As an added element of diversity, the PPTI also tries to involve people from all parts of Alberta – the urban centres of Calgary and Edmonton, the smaller cities, more rural areas, and in some cases from out of the province.

The group meets in six two-day sessions over a six-month period, alternating between Calgary and Edmonton. The faculty are practitioners from diverse corners of the public policy arena. The common thread is that they all have extensive first-hand experience in the mysterious ways of public policy development. Equally important, they are all advocates for a robust public policy process. The faculty includes:

- a former Alberta cabinet minister;
- the head of a regional think tank;
- the head of a research organization and former assistant deputy minister;
- the CEO of a large nonprofit organization active in public policy development; and
- a former deputy minister to a Canadian premier.

The faculty are assisted by guest speakers, including researchers, government-relations experts, municipal politicians, and current civil servants.

Before the course begins, and as part of the selection process, each participant must identify a public policy issue he or she wishes to pursue. This must be a substantive issue, as distinct from a request for more funding or resources for their organization. It may or may not be something that is actually "in play"; what matters is that it be a proposal that can be used as a case study and learning tool for the duration of the course.

The Max Bell PPTI faculty spend half a day following each year of the program to debrief. Over the 11 years the PPTI has been operating, the following "lessons learned" have been reinforced:

Matching a curriculum to the messy and dynamic reality of public policy–making is an ongoing challenge. Depending on their own backgrounds and experience, and on the particulars of the "live" public policy proposal they're working on, participants inevitably have differing views on which elements of the curriculum are more important and what sequence they should come in. As Eaton (2014) notes, "those involved know that the process of public policy development and adoption is never straightforward or linear. Public policy often starts in the middle and works back before going forward, or it travels in increasingly tighter or broader circles. The course seeks to recognize this reality and so the individual modules often overlap."

Access to and interaction with the Max Bell PPTI faculty is consistently identified by participants as one of the most useful elements of the program. It would be difficult to overstate the value of faculty members who have both a) significant direct experience with government and b) a deep commitment to the idea that charities should be engaged in policy development. The Max Bell PPTI assigns each participant to one of the faculty members, who acts as their mentor during the six months of the institute. The faculty mentors engage with participants around a set of six assignments designed to cement the learnings of the PPTI.

Participants tend to be senior in their organizations, have some experience with public policy, and represent a very broad diversity of public issues.[1] Unsurprisingly, they learn as much from each other as from the faculty. We aim to provide as much time for group exercises and offline interaction as possible, and participants consistently identify this as among the most useful elements of the PPTI.

Having participants work on a “live” public policy proposal during their time in the PPTI has proven invaluable. While it is useful to have some degree of theoretical understanding of the policy process, the roles of research, assessing policy options, implementation strategies, and communications strategies, it is the direct practical application of them that participants value most highly.

One indicator of the program’s success is the extent to which participants have succeeded in achieving the policy proposal they developed during the PPTI. Of the more than 225 individuals who have completed the program, more than a dozen have succeeded with their policy “ask” (a handful of them during their terms in the PPTI). Many more have kept us updated as they continue to pursue an initiative that had its early development during the PPTI. And more still have moved on to other policy proposals and told us how their PPTI experience has set them up for success.

Another indicator of success – more challenging to measure with certainty – is the number of connections between public policy entrepreneurs within the charitable sector. We’re aware of a small number of policy coalitions that either began or were reinforced during the PPTI. Those coalitions continue to engage with governments in the shared pursuit of the public good.

Where To from Here?

In December 2018, the Implementation Act associated with the 2018 federal budget received royal assent. Included in the act was a significant change to the legislation that impacts charities' ability to participate in what is now called "public policy dialogue and development." The legislative changes, and CRA's guidance, mark the end of a major chapter in the ways in which Canadian charities are encouraged by the federal government to engage in the development of public policy. The chapter began in 2012 with a CRA audit project that sought to review charities' adherence to CRA's "political activities" rules.[2] Central to this chapter in the history of Canadian charities is the *Report of the Consultation Panel on the Political Activities of Charities*[3] and the federal government's response to the report.[4] What neither of those documents can reflect is the tremendous collective effort, on the part of many individuals and on behalf of many Canadian charities, to improve the regulatory regime within which public policy advocacy takes place.

I mention this not only to emphasize that charities now have greater clarity and more regulatory latitude for their policy advocacy objectives. I also want to flag that I believe – some may say optimistically – that getting to this new policy environment has helped galvanize the charitable sector's collective commitment to public policy advocacy. For more than five years, dozens of individuals working in a range of organizations (both charities and allied professions) contributed significant time and energy to a broad, coordinated policy advocacy effort aimed at improving the environment surrounding the conduct of policy advocacy. While of course only time will tell, I expect that the relationships and learnings that developed in this effort will endure. My experience with umbrella organizations in the sector, and with the broad range of charities I come into contact with, leads me to think that policy advocacy by charities will grow in the future.

If that's true, the need for the Max Bell PPTI – and similar programs – will grow as well.

For our part at Max Bell Foundation, we're now preparing to make the curriculum of our PPTI available as a free online learning resource. We have had a number of inquiries from other organizations asking for advice and help as they develop shorter, more targeted professional-development opportunities for charities wanting to do public policy advocacy. And we're exploring – notably with Maytree and the United Way of the Lower Mainland – how we might leverage our respective programs in ways that will further serve Canadian charities in their pursuit of public policy advocacy.

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Notes

[1] See https://maxbell.org/our-work/programs/public-policy-training-institute/ppti-participants/

[2] For a fuller account, see https://thephilanthropist.ca/2015/07/a-chilly-time-for-charities-audits-politics-and-preventing-poverty/

[3] https://www.canada.ca/en/revenue-agency/services/charities-giving/charities/about-charities-directorate/political-activities-consultation/consultation-panel-report-2016-2017.html

[4] https://www.canada.ca/en/revenue-agency/news/2019/03/the-government-of-canada-delivers-on-its-commitment-to-modernize-the-rules-governing-the-charitable-sector.html

Biography

Allan Northcott, Max Bell Foundation

Allan Northcott is president of Max Bell Foundation, a private grantmaking foundation based in Calgary. Its mission is to support projects across Canada that bring the expertise and experience of civil society organizations to bear on the development of public policy. Its program areas are health, education, and environment, and its policy-oriented mission means the Foundation also attends closely to the regulation of charities in Canada.

Intersections with Governments: Services and Policy Engagement

Chapter 32

A Lever for Change: How Foundations Can Support Public Policy Advocacy

Marcel Lauzière
The Lawson Foundation

We live in a complex world that faces many intractable social, environmental, and cultural challenges. Addressing these is hard work, but sound public policy is a major lever for change and for improving circumstances and outcomes for individuals and communities. It is our governments (municipal, provincial, territorial, federal, Indigenous) that have the legitimacy to develop public policy in our democratic systems – and that is a good thing.

That being said, there is a growing realization that the development of public policy is strengthened by including voices with different knowledge and expertise, including from the charitable and nonprofit sector. Consultation approaches are moving from ineffective processes that breed cynicism to more engaging and porous methodologies that embrace inclusion and seek new and different ideas, knowledge, and data. In an ideal world of good public policy development, no stone should be left unturned, no source of relevant knowledge ignored.

Despite this, and while charities and nonprofits have participated in the public policy process for many years (and there are several examples of great successes in Canada), many charities and nonprofits are still hesitant to engage. Too often, as charities and nonprofits, we have shied away from public policy advocacy for fear that it is not permitted, that we do not have the legitimacy to participate, or that we lack the resources.

Consequently, society is not reaping the full benefits of hearing our voices. In my experience in the charitable and nonprofit sector and in the public service, I have seen that the fault for this lies with both the sector and government.

Where the nonprofit sector has participated in public policy, we have time and again played the game ineffectively. Too often, we have come to the table unprepared. And sometimes, we have been too ideological and self-righteous. I can certainly admit to having been guilty of all of the above.

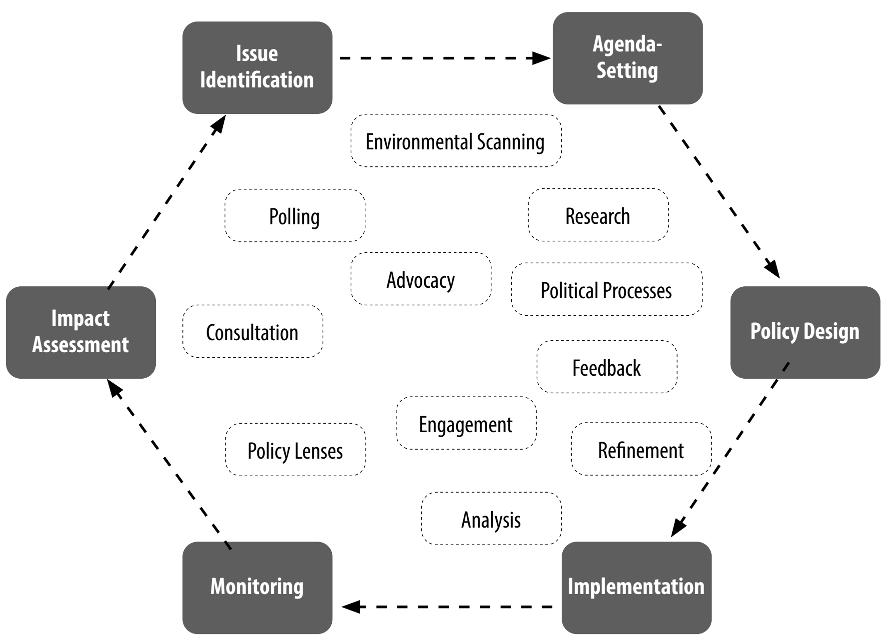
But the fault also lies with governments. As a senior public servant, I have witnessed how governments can be deeply unaware of the value that charities and nonprofits can bring to the table in public policy dialogue, particularly in terms of complementary data and knowledge that only they have. But I do believe that this can be remedied over time.

In this chapter, I will address two things. First, I will look at why public policy advocacy by charities and nonprofits can be so valuable. I will argue that charities and nonprofits should consider engaging in effective advocacy and that foundations, private and public, should encourage such participation. Second, I will examine how foundations can support charities and nonprofits in engaging in this advocacy. For the purposes of this chapter, I take a broad view of public policy advocacy: it ranges from raising awareness about issues with elected officials and public servants to calls to action to effect real change.

Effective public policy advocacy is not simply about griping and moaning about things governments should do better. While criticizing government policies and programs is legitimate, public policy advocacy is also about finding ways to work with governments to achieve better outcomes by providing advice, information, data, and analysis to which they would not otherwise have access. And it can be about facilitating connections to individuals and communities that best understand the impacts of programs and services on the ground. And, of course, it can be about encouraging communities to take action.

And there are many points of entry. Advocacy can contribute at different stages of the whole public policy process, of which there are many. The following figure, prepared in 2002 for a document entitled *A Code of Good Practice on Policy Dialogue,* in the context of the Voluntary Sector Initiative, remains relevant and helpful in understanding the points of entry for public policy dialogue. It is a useful reminder of where and when charities and nonprofits can be involved.

Diagram of the Public Policy Process



Why Should Charities and Nonprofits Engage in Public Policy Advocacy?

Charities and nonprofits can and should play an important role in the development of good public policy. Five reasons make the case for this.

An Opportunity to Spur Transformational Change

For any organization wishing to fundamentally shift things to improve outcomes for individuals or communities, whether through systemic change or changes to parts of a system, public policy, including legislation, can be a necessary lever. For example, while awareness campaigns about the dangers of smoking and of second-hand smoke were important in the 1980s and 1990s, they were not sufficient to fundamentally change societal behaviours. Extensive advocacy by charities and nonprofits led to public policy changes that banned smoking from public spaces and improved health outcomes. Awareness alone would not have achieved the same outcomes. Legislation enacted because of effective advocacy was a key factor. The same can be said about drinking and driving in Canada.

In many cases, if organizations want to fully deliver on their missions and work toward meaningful and transformational change, public policy advocacy is the only way to go.

Complementary Knowledge and Insights for Better Policy

If we believe that the challenges that we face today are complex and intractable, whether it be child poverty, chronic disease, income inequality, or environmental degradation, then it follows that as a society we must bring the best minds and the best knowledge into play. Because of how closely the sector works with individuals and communities, some of the best knowledge resides in the charitable and nonprofit sector. The unique knowledge of charities and nonprofits comes from working at the "coal face" of difficult issues, delivering programs and services, evaluating the effectiveness of their interventions, and hearing the needs and aspirations of beneficiaries and communities. This knowledge provides a different kind of understanding, one that is complementary to the knowledge and information governments have, and it is critical to the development of sound public policy.

Moreover, in the last 25 years or so, various levels of government have shed much of their internal policy capacity. Governments have increasingly turned to consultants, academics, and think tanks for the knowledge they need. But for the reasons listed above, charities and nonprofits also have invaluable insights and intelligence to bring to the table.

Who Do Elected Officials Really Want to Hear From?

In my experience, elected officials, whether federal, provincial, or municipal, want to hear from the organizations that have direct and close relationships with communities and know how policies are playing out in the real world. While the data and analysis provided by public servants, academics, and think tanks are essential to their understanding of the issues, elected officials want to understand the impact of their policies on real people and communities. Organizations working directly with individuals and communities can share real people's perspectives with politicians, providing an emotional and human understanding of issues. This is knowledge they thrive on. For many decision-makers, it is not all about data and academic analysis.

Unfortunately, these voices are too seldom heard by elected officials. This is not simply a criticism of decision-makers who do not reach out sufficiently. It is also a criticism of charities and nonprofits that do not recognize that they have a role to play in public policy – and, I would add, a responsibility to participate wherever they can. They hold unique and invaluable perspectives and can be the voice, sometimes the only voice, of the individuals and communities they serve.

Business Is at the Table

The Canadian business sector is active in public policy advocacy on the many issues that concern them. Canadian businesses recognize that government will make decisions affecting their ability to compete and grow and that those decisions may not be in their interest. Hence, they see clearly the need to get involved in public policy advocacy. The Canadian Federation of Independent Business and the Business Council of Canada (representing chief executives of large corporations) are examples of organizations that advocate for businesses. It is also common for industry-specific organizations to lobby for policy changes, whether related to regulations, taxation, or other issues. These lobbying organizations (which are legally constituted as nonprofits) are generally much better resourced than charities and other nonprofits.

Corporate participation in public policy advocacy is entirely legitimate when done with transparency, and charities and nonprofits need to ensure that they are also at the table. When charities and nonprofits don't participate, the issues that they care about are often neglected.

Building Legitimacy, Credibility, and Engagement

Robust public policy advocacy can send a positive signal to organizations' members, donors, volunteers, and staff. While I have not seen any data on this per se, I know from personal experience that advocacy done well attracts interest in the work and the cause of a charity or nonprofit, if this advocacy is well integrated in the charity's narrative. Indeed, advocacy can be an important differentiator in a competitive environment: it can highlight an organization's commitment to transformational change and can be crucial to demonstrating legitimacy and credibility. In addition, it can help charities and nonprofits build membership and attract talented, engaged, and committed volunteers and staff, in particular in the case of millennials.

Moreover, it can support an organization's fundraising efforts. A few years ago, when the federal government of the time and some in the media were criticizing environmental organizations for their advocacy work, these same organizations reported increased donations and engagement by volunteers. These organizations got the message: their donors and the public expected them to make their voices heard on important public policy issues.

While I feel that these five reasons are valuable and help to make the case, for a fuller discussion on why engaging in public policy advocacy is a good idea, I would refer you to an excellent article by Roger Gibbins, a fellow at the Max Bell Foundation, in *The Philanthropist*.

How Can Foundations Build Sector Capacity to Engage in Advocacy and Public Policy?

If foundations believe in the benefits of public policy advocacy by the charities and nonprofits that they support, then they have a responsibility to look at ways to resource that work in a meaningful way. Yet while an increasing number of funders are doing this, and doing it well, many others are not.

Several foundations now want to be involved in systemic change on big intractable issues. These funders are no longer satisfied with simply providing grants to deliver programs. While one can debate the wisdom of this, the reality is that many large foundations are increasingly interested in funding what they believe will lead to transformational change.

As this is the direction that many foundations are taking, and if we agree that it will be difficult to achieve that kind of change without turning to public policy as a lever, then it follows that foundations should find ways to help build the capacity of charities and nonprofits to engage professionally, rigorously, and effectively. Support for public policy advocacy should, in my view, be increasingly part of a foundation's toolbox.

There are myriad tools in that toolbox for foundations to support individual organizations' public policy engagement. In some cases, foundations can provide funding, while in others they can open doors, or they can convene and support strategic conversations. In others still, they can provide advice on the art and craft of public policy advocacy.

Below, I present examples of what some foundations are doing, under seven broad categories, for other foundations to consider as they reflect on how best to support public policy advocacy. These cases can also provide charities and nonprofits with ideas about how to approach funders to secure funding for their own public policy work. These examples do not constitute an exhaustive list of what foundations are doing – not at all. They are selected simply for their innovation and relevance.

While there is sometimes a sense that Canadian foundations don't support public policy advocacy, the examples presented here tell another story. Things are changing.

The work of foundations is presented under the seven following categories:

- investing in collaboration and people;
- training for impact;
- gathering evidence and communicating it;
- creating connections for influence;

- unlocking the power of convening;
- normalizing multiyear and stable funding; and
- supporting infrastructure.

Investing in Collaboration and People

Except in times of crisis (i.e. when something happens in the political or economic context that requires immediate and swift action), effective public policy advocacy is about the long game. It requires defining the problem, doing the background research, collecting the data, developing the right narrative, creating relationships, building partnerships, and very often waiting for the winning conditions to be present (i.e. waiting for the proverbial "window of opportunity" to open). Mostly, it requires patience. Influencing public policy to effect real change takes time. It is a long-term investment, and it is very difficult to do without stable funding to attract and retain the competent staff needed for this work.

There are many ways to do this. Foundations can provide dollars for salaries for public policy professionals in individual organizations or fund positions that could serve a group of organizations working in a specific area (the concept of a backbone organization in the collective impact model).

Foundations have supported or are supporting people and collaboration for public policy in several ways:

- Several years ago, the Montreal-based McConnell Foundation astutely recognized the need for environmental organizations to work together more effectively, with particular regard to public policy. Each organization did excellent work on its own, but they needed to break down silos to strengthen results and impact. The McConnell Foundation took it upon itself to help found the Strathmere Group and to create a rotating backbone organization to support the group. It continues to this day.
- In 2015, A Way Home, a national coalition focused on the prevention and reduction of youth homelessness in Canada, was launched with support from the Toronto-based Catherine Donnelly, Laidlaw, and Maytree foundations, as well as the Home Depot Canada Foundation. The website of the collective reads, "We support all levels of government to recognize the role they have in shifting the response to youth homelessness through policy frameworks and the necessary funding to support strategies." This coalition is shifting the policy focus from emergency response to prevention and helping young people who are homeless move into housing. The active collaboration of national partners brings to the table their complementary skills, attributes, and resources, thus limiting competition between organizations working toward similar goals.
- The National Housing Collaborative is one of the most successful approaches to public policy in the charitable and nonprofit world in many years. Similar to A Way Home, it brought together key housing organizations, supported by the United Way of Greater Toronto, to act as a solid backbone organization. After slowly developing a strong working relationship, the collaborative worked with the federal government to create the $40-billion social housing strategy announced in 2018. Its work was funded and supported by the Maytree and Metcalf foundations in Toronto, the Vancity Community

Foundation in Vancouver, and the McConnell Foundation in Montreal, as well as by United Ways across the country. A good part of its success can be traced back to strong leadership and an effective and well-resourced backbone partner.

- A few years ago, the Edmonton-based Muttart Foundation and Imagine Canada discussed the idea of having a chief economist for the charitable and nonprofit sector – a completely new concept. The organizations recognized the need to strengthen the sector's ability to engage on public policy issues and to engage on an equal footing with government experts. The Muttart Foundation was the initiator and the founding funder, with the Ontario Trillium Foundation and the Counselling Foundation of Canada following not long after. In 2013, Imagine Canada hired its first chief economist.
- Another innovation was the Atkinson Foundation's launch of a fellowship program in 2018. The work that the Atkinson Fellow on the Future of Workers will do in the next few years will make a substantial contribution to public policy and will strengthen the work many charities and nonprofits are doing to improve policies related to decent work. By selecting a high-profile and highly regarded thinker and communicator, the Atkinson Foundation is putting into place a powerful platform for public policy change, one that will contribute to the thinking and actions of many organizations.

Training for Impact

It's one thing to engage in public policy advocacy, and it's another to do it effectively and professionally. The sector has often done advocacy poorly because of the scarcity of financial and human resources to do it well. But a more important reason is that many charities and nonprofits don't fully understand how public policy is done – and, perhaps more importantly, not done.

The public policy process is messy and complex. Yet many organizations seem to believe that passion and good ideas are all that are needed to influence government. How often have I heard people complain that they could not understand why government was dragging its feet or refusing to change things for the better when the solutions were so simple.

This is where funding for adequate training comes in. Any government worth its salt, regardless of its particular agenda, has robust mechanisms to test ideas, measure the possible impacts of proposed policies or programs, assess unintended consequences, undertake costing and forecasting, and much more. It follows that any organization wishing to influence public policy needs to be aware of this process and do the homework needed to engage in these discussions. So yes, dollars are needed, but first there needs to be a sound understanding of how to effectively engage in public policy advocacy.

Moreover, governments operate with many constraints, and understanding these can greatly help charities and nonprofits position policies in the right way and at the right time, as I learned through my later experience in government. Working in government was an eye-opener for someone who had for many years worked to influence public policy from the outside. I learned of the many constraints, including fiscal capacity, other competing government priorities, agreements made with other parties (in the case of a minority or coalition government), particular sensitivities of a minister, mandate letters, timing of the electoral process, attention to particular constituencies, media attention, and polling results, to name but a few.

Public policy advocacy is not for the faint of heart. It takes proper data, research, and analysis, but it also takes a profound understanding of how government functions, its constraints and the context in which it works at any given time. Without this understanding, much energy can be spent in the wrong place, at the wrong time.

Foundations can build capacity in the sector by supporting the training of staff involved in public policy advocacy. Two Canadian foundations have recognized this need and have set aside resources to meet it:

- The Max Bell Foundation, based in Calgary, has been a leader in this area for a number of years with its highly successful Public Policy Training Institute, which provides rigorous training to leaders in the charitable and nonprofit sector from all over Canada. Past students say: “This has been a superb learning experience for me that has already dramatically improved our organization’s performance in the policy change area,” and “I use the lessons I learned in this invaluable course almost daily. It’s changed how I structure campaigns and communications to be much more strategic and effective.”
- The Toronto-based Maytree Foundation has a Policy School that has earned a strong reputation in the sector. The school caters to charities and nonprofits that work in areas related to poverty reduction and human rights. On its website, Maytree indicates that it offers “a multi-disciplinary environment for participants to learn a range of skills that will help them influence policy,” and states, “When the non-profit sector engages in shaping public policy, we end up with better decisions, better laws, and better programs. However, it can be challenging for non-profit organizations to build the capacity to engage effectively in the public policy process.”

I am not suggesting that all foundations launch their own public policy institutes. Foundations wishing to build the capacity of the sector to effectively engage in public policy advocacy could financially support their grantees and stakeholders to participate in these existing programs. That would be immensely helpful in itself.

Moreover, there are other ways to build capacity:

- In 2018, the Laidlaw Foundation in Toronto hosted a workshop for grantees, community leaders, and organizations called Influencing Public Policy 101. The workshop provided advice on how to advocate for policy change, looked at best practices, and discussed how to get the attention of policy-makers, conduct follow-up activities, and much more. That the workshop had a full house clearly demonstrates the need for this kind of training.
- The Quebec-based Lucie and André Chagnon Foundation recognizes the importance of having community organizations influence public policy. It also recognizes that there are very strong actors at both the local and regional levels. To support their work, the foundation worked with the Léger polling firm to survey 1,500 individuals and organizations across Quebec to understand their approaches to influencing public policy and to determine their needs. From this research a new provincewide initiative called Pour Rallier (Communicate to Rally) has recently been launched to support those involved, or wanting to get involved, in public policy advocacy. It is a co-created

multimedia platform for knowledge mobilization that offers a variety of tools and resources and access to experts. The Chagnon Foundation is a major funder of this new initiative and, along with a variety of experts and practitioners, is a strong content contributor.

Gathering Evidence and Communicating It

A third way for foundations to support the capacity of the sector is through the gathering of evidence, whether by collecting and analyzing data (including polling data), conducting qualitative research, distributing reports, or staging speakers' series to make that knowledge easily accessible and digestible.

If we agree that charities and nonprofits need to be armed with the right evidence and data to successfully engage with government, then it follows that foundations can and should play a role in developing and disseminating that evidence.

The work of several Canadian foundations in contributing to the sector's ability to influence public policy through stronger evidence and data can inspire others to follow suit in their own ways.

- Every year, individual community foundations release the Vital Signs reports, which collect and mobilize data to foster conversations at the community level on important social and economic challenges. The data presented in these reports, which are produced in some 85 communities across Canada, is a powerful example of foundations coming together to provide tools and resources for civic engagement.
- The triennial *Early Childhood Education Report*, first released in 2011 by the Atkinson Centre at the Ontario Institute for Studies in Education (OISE), is funded by three Toronto-based organizations: the Margaret and Wallace McCain Family Foundation, the Atkinson Foundation, and the Lawson Foundation. The report provides accessible, user-friendly, and meaningful data and analysis on provincial and territorial early childhood education policies, including governance, funding, access, quality, and accountability mechanisms. The intent is that organizations can use the data in their own public policy engagements with their provincial and territorial governments, as well as with the federal government. A fourth report was released in 2020.
- The Ivey Foundation, based in Toronto, focuses on environmental issues. It was instrumental in the 2014 creation of the Montreal-based Ecofiscal Commission, a unique and highly influential think tank in Canada. This is a powerful example of a foundation playing a key role in facilitating public policy discussions beyond the academic milieu. The knowledge and data stemming from the Ecofiscal Commission is credible and robust, and it is instrumental to any environmental charity or nonprofit seeking to impact public policy.
- In Quebec, the Chagnon Foundation incubated the Observatoire des tout-petits, a first in the foundation world in Canada. The Observatoire seeks to put child development and well-being at the centre of Quebec's priorities and to foster public policy dialogue. It regularly reports on how young children are doing and on the environment in which children are growing up. The data and the reports are a huge resource for any child-focused organization looking to engage successfully in the public policy process.

- The Lyle S. Hallman Foundation, based in Kitchener-Waterloo, and the Lawson Foundation have worked together to support a major national knowledge initiative led by UNICEF Canada. One Youth's ambitious goal is to make Canada the best country for children by the year 2030. An important part of this work is public policy advocacy, which will be based in part on the first Canadian Index of Child and Youth Well-Being, one of the cornerstones of the initiative. This new data will be collected for many years to come, and it will be easily accessible to Canadians and organizations wishing to engage in public policy advocacy concerning the well-being of children in Canada.
- The Maytree Foundation is unique in Canada for recognizing the value of long-term funding for public policy in its creation and funding, over a 25-year period, of the Caledon Institute of Social Policy. The Caledon Institute played a seminal role in the development of innovative social policy in Canada and was the go-to place for charities and nonprofits to access robust analysis and data for their own public policy advocacy. Funding for the institute ended in 2017, but its policy work can be found on the Maytree Foundation's website.
- A few foundations have made the data stemming from the work that they fund available to a broad public so that it can be used for better program development, as well as for effective engagement in public policy dialogue. This is a growing trend. A great example of this is the Vancouver Foundation's *Open Licensing Initiative*.

Data and knowledge are key to effective public policy engagement and can ensure that governments view policy positions or options as robust and credible. While many organizations contribute in one way or another, two foundations come to mind for their strong ability to communicate data and knowledge.

For many years, the Metcalf Foundation has published seminal reports authored by foundation fellows on important policy issues, including the role of social finance in the arts, the implications of a basic income for Canadians, and the importance of decent work. The Metcalf website explains why they do this and how it helps advance public policy thinking and open up conversations. More than 40 such reports are accessible on the website at no cost, representing a major contribution to the ability of organizations to engage in public policy advocacy.

The Max Bell Foundation contributes to the critical thinking so necessary to good advocacy with its newly created annual speakers' series, Policy Forward, which gives practitioners and policy-makers an opportunity to speak about emergent Canadian public policy issues. The audiences include charities and nonprofits, government, business, and engaged members of the public. Videos of the presentations are archived on the foundation's website, where they are accessible to all. These will become important sources of information and reflection for organizations wanting to engage in public policy advocacy in those areas of work.

Creating Connections for Influence

If charities and nonprofits are to successfully engage in public policy advocacy, they need adequate funding to do so. That is a *sine qua non* condition, and I have given examples of how this can best be done. But foundations can also think outside the box and use their more intangible assets, such as their personal connections, to facilitate access for charities and nonprofits.

While charities and nonprofits understand the issues in the areas in which they work and have ideas about how public policy could change things, many lack the necessary connections and access to government to make those changes happen.

This is where foundations, with their networks and points of entry, can come into play. They can open doors to elected and government officials, to business leaders, to other funders, and to colleagues outside Canada. They also have the ability to bring people together. (People rarely refuse invitations from foundations, particularly when the costs are covered!) These are important ways to support public policy advocacy, and this kind of support should not be underestimated.

- The Laidlaw Foundation set up a town hall that connected Ontario sector organizations with political party leaders during the 2018 provincial election campaign. This gave individuals and organizations across the province an opportunity to hear firsthand the parties' views on key issues facing youth in the province, and to ask party leaders questions. The event was a huge success, with thousands participating through Twitter and media amplifying the event.
- At the Lawson Foundation, we connected the executive director of the Ontario Nonprofit Network (ONN) and the executive director of the National Council of Nonprofits in Washington. That led to a strong relationship that included participation of the council's executive director in a session on public policy at the ONN's annual conference. It also led to members of the ONN attending meetings in Washington, including a policy day on Capitol Hill with their American counterparts. The two organizations are learning about public policy advocacy from each other, and that was exactly the point.
- In 2013, the Margaret and Wallace McCain Family Foundation supported the development of eight community early-years centres based in elementary schools. The foundation and the provincial government designed the evaluation framework that was implemented by researchers from Dalhousie University and Mount Saint Vincent University, including a post-doctoral fellow. The foundation worked with government partners to convene a series of meetings and symposiums to track progress. The post-doctoral researcher was supported by the foundation to apply for grants to further study the impact of early childhood policy aligned with public education and community. That researcher is now a Canada Research Chair and is establishing a network of key individuals inside and outside government to inform public policy. This is a great example of a foundation working to make meaningful connections between charities (in this case universities) and government.

Tapping the Power of Convening

To engage in public policy advocacy, convening is a complementary tool to traditional grants. In cases where public policy is going to be advanced through a partnership or a collaborative approach, it's critical that individuals and organizations gather around the same table to build relationships and trust and roll up their sleeves to design an effective engagement approach. Often, organizations wanting to partner on the same public policy issue find it difficult to set aside the time to build trust and ensure that the goals, objectives, and approaches are well aligned. They rarely have the resources necessary to invest in this work, and that can be detrimental to the whole exercise.

In some circumstances, foundations are particularly well positioned to play the role of a convenor. Foundations can create safe and neutral spaces for conversations, and they can help cover the substantial costs that good convening may require. It is important to note that playing the role of a convenor does not mean that the foundation is taking a leadership role. On the contrary, convening is about playing a complementary and supporting role.

There are interesting examples of foundations, or groups of foundations, recognizing the need for and the importance of convening for public policy. I will mention three from which we can learn.

- Community Foundations of Canada (CFC) and the McConnell Foundation have partnered with the Breuninger Foundation to use Wasan Island in the Muskoka region of Ontario as a premier location for convening. These events bring together organizations and individuals from different backgrounds and perspectives to spend a few days in nature while looking at ways of addressing challenging social issues. This example is a reminder to foundations that location and environment can play a big role in successful convening.
- For more than 20 years, the Muttart Foundation has been convening sector organizations and government through its consultations program to address complex regulatory issues that impact charities' ability to do their work effectively. An important factor in the success of these consultations is the care taken in choosing the right environment for the discussions. Muttart's unique convening approach has had a concrete impact on the regulatory environment for charities. Having participated in a few Muttart consultations, I can attest to the effect that they have on public policy, as well as to the lasting connections that they create among participants. The Muttart website lists a few key ingredients for success that can inform the work of other foundations:

  > Participants are asked to leave their agendas at home. These are not negotiation sessions, they are attempts to use problem-solving techniques to resolve a common issue. No one is asked to commit to any decision. The object of the consultations is to have a full discussion about the nature of an issue and alternatives to dealing with it. Participants spend two full days concentrating on the one issue, something one participant termed "an incredible gift."

- A third example of innovation in this space is the work that the Gordon Foundation has been doing in Canada's North. The foundation organizes Northern Policy Hackathons to bring together leaders in the North to discuss, and find real solutions to, public policy issues. In the words of the foundation, they develop "made-in-the-North solutions," or at least provide recommendations on important issues that affect northern communities. This is a unique model that speaks to the value of foundations supporting convening events to facilitate discussions that could probably never happen without that help. It is a powerful model that could be adapted by foundations wherever they are working in Canada.

Normalizing Multiyear and Stable Funding

In this chapter, I have attempted to make the case that it is important for charities and nonprofits to engage in public policy advocacy. As nonprofits do this, they come to realize that policy change usually happens slowly. Successful policy advocacy is not just about developing the right evidence and the right connections; very often, it is also about waiting for the right conditions, the right environment, and for that important window of opportunity to open. Usually, if organizations are to have any success, they need the resources to be engaged for long periods of time.

As a result, funders can look at multiyear support, so organizations can count on stable funding and plan accordingly. Foundations often think of multiyear funding in frames of three or five years. Why not start thinking more ambitiously and look at funding periods of between five and 10 years?

Some foundations already do this.

- The Muttart Foundation has been supporting the work of Imagine Canada, including its public policy work, for more than a decade.
- Another example is the long-term support that the McConnell Foundation has provided to the Strathmere Group, as described earlier.
- And there is the 25-year funding that the Maytree Foundation provided to the Caledon Institute that I also described above.

These are, in my view, examples to be followed if foundations truly want to support organizations' public policy advocacy and have something to show for it.

Supporting Infrastructure

As we have seen, many foundations are considering how they can best assist the public policy advocacy of the organizations they support. However, there is less recognition of the need to provide support to infrastructure or umbrella organizations, be they local, regional, national, or sub-sectoral. And I believe that lack of funding for this hampers the ability of individual organizations to do their public policy work as effectively as they could.

The role of most infrastructure organizations includes working to create a conducive regulatory environment for charities and nonprofits to do their work in the public policy arena. A case in point is the work that Imagine Canada, Philanthropic Foundations Canada (PFC), the Ontario Nonprofit Network (ONN), the Canadian Environmental Grantmakers' Network (CEGN), and others have done to help convince the federal government to modernize its regulations on political activity.

These organizations also bring charities and nonprofits together so that they can learn from each other. The ONN annual conference consistently addresses issues related to public policy, as does the CEGN conference. Imagine Canada and PFC collect data on the broad charitable and nonprofit sector and provide important analysis that is useful to many organizations.

Moreover, local organizations such as the Pillar Nonprofit Network in London and the Calgary Chamber of Voluntary Organizations (CCVO) do similar work to reinforce the capacity of local organizations to be more effective in their dealings with their local governments.

I have often heard from foundations that support for infrastructure organizations doesn't fall squarely into their areas of work; hence there is no funding available to them. I think this is a mistake.

If foundations believe in the need for better support for public policy advocacy and for capacity-building for the entire charitable and nonprofit sector, then it only makes sense to also think of infrastructure organizations when it comes to funding.

Conclusion

There is no denying the role that charities and nonprofits play in Canadian society and in communities across the country. What is perhaps less known is the potential power of their voices in the development of sound public policy in this country.

While many charities and nonprofits are already active (and many have been for a very long time), many are not. For some, the decision not to get involved is the result of a thorough review of their priorities and approaches. But for many others, it stems from a lack of recognition of the role that they can play, a fear that it is not their role, and a sense that they have little to bring to the table. I have enumerated five main reasons why I believe there is merit to exploring becoming more involved in public policy advocacy in the hope that more charities and nonprofits will reflect on their potential to positively impact public policy, and through this improve the outcomes of the communities that they serve.

This chapter has also sought to demonstrate that, contrary to popular belief, many foundations in Canada are actually very active on the public policy front, and through myriad different and complementary ways, including funding, convening, opening doors, sharing data, training, and so much more. Given the diversity of approaches, charities and nonprofits should not fear approaching foundations with ideas about how those foundations could support their public policy advocacy work.

I also hope that the examples provided here may help spur other foundations that may not be in the space yet to reflect on the impact that they can have through the support of public policy advocacy and learn from what other foundations are already doing.

And given the recent historic decision made by the federal government to move away from imposing excessive limits on what charities can do in the realm of public policy advocacy, charities and nonprofits, as well as foundations, should jump on the opportunity to reflect on how best to engage in public policy advocacy in Canada.

Biography

Marcel Lauzière, The Lawson Foundation

Marcel Lauzière is the CEO of The Lawson Foundation and board chair of YMCA Canada. He has led a number of national charities, including Imagine Canada, and has been a senior public servant in Canada and abroad. He believes deeply in the power of charities and nonprofits to influence public policy for transformational change, and in the ability of foundations to support this work across the country.

Part III Innovation and Intersections

Community and Corporate Intersections

Intersections with Governments: Services and Policy Engagement

Measuring Impact and Communicating Success

The Muttart Foundation

Measuring Impact and Communicating Success

Chapter 33

Social and Environmental Impact Measurement

Kate Ruff
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This chapter discusses best practices and key challenges of performance assessment in charities, nonprofits, and social enterprises in Canada, with a focus on the practical steps organizations can take to make performance assessment work better for them.

The main argument is that performance assessment can be relatively easy when done for a specific purpose at a single organization or project but that it becomes much more challenging when measures must fulfil multiple purposes and must exist within an ecosystem of interconnected organizations. Given that most organizations (dare I say all?) exist in this more challenging scenario, good performance assessment requires an understanding of the tensions that arise when measures are used for multiple purposes and multiple organizations.

The chapter begins with a description of impact measurement in its simplest form: when undertaken for a single purpose and a single organization. As noted above, impact measurement in this scenario is relatively easy. It is easy in the way that running a marathon is "easy." It can take hard work, but there is no mystery. This is something people know how to do, and many have done before. If done frequently, it really does become easy.

The second section introduces complexity into the simple scenario. It focuses on the multiple roles that performance measurement is called upon to fulfill: learning, impact management, accountability, and communication. I identify the conditions under which performance measurement can fulfill those roles and highlight the perverse consequences that arise when a measurement system designed for one purpose is called upon to fulfill another. The key message is that measurement is not a panacea, nor a crystal ball. Best practice suggests a diverse range of metrics and a lot of human discretion in their interpretation.

The third section introduces even more complexity. It examines measurement within an ecosystem of interconnected organizations. Impact measurements flow among organizations to facilitate communication, coordination, and collaboration. It is helpful if the organizations are speaking the same language – if they use similar measures. What are the consequences of uniform or standardized metrics? I argue that a balance must be struck between relevance, which requires flexibility, and uniformity.

Many of the performance measurement tools created for performance (or impact) measurement assume the easy scenario: a specific purpose and single organization. One reason that these tools often fall short of expectations is that organizations do not, and cannot, operate in such a simplified world. Organizations are interconnected. Measures are used for multiple purposes. This reality makes measurement more challenging than existing resources acknowledge. The chapter concludes with some implications for Canadian nonprofits, expressed as seven tips for getting the most out of performance assessment.

Impact Measurement Basics

Performance assessment is easy when undertaken by a single organization for a single purpose. This section presents the causal model and measurement process that underpin most measurement methods. It is not a how-to guide, but links to further resources are provided.

Defining "Impact"

Instead of defining impact, I think it preferable to be aware of different ways that people use the term "social impact." The most common meanings of social impact are:

- **Impact as a generic word for any kind of social or environmental result.** Socially responsible companies, social enterprises, and impact investors use "social impact" to refer to social or environmental outputs and outcomes and "impact measurement" to refer to the tracking of those items (e.g. Mudaliar, Pineiro, Bass, & Dithrich, 2017; GRI, 2016). In this definition, impact measurement is synonymous with what nonprofits might call performance measurement. Many nonprofits have followed suit such that this generic use is now the most common meaning of impact, although there is a push to connect impact to contribution.
- **Impact as contribution.** Impact is used to describe change *as a result* of an organization's activities, meaning the change would not have happened anyway. Impact measurement in this context refers to methods that allow claims of attribution (White, 2010) by making use of control groups and experimental design. In this definition, impact measurement is different from outcome measurement because it can identify contribution. This usage is particularly common among evaluators (Hansen, Klejnstrup, & Andersen, 2013) and was recently embraced by the Impact Management Project (IMP), a global forum that seeks to build a consensus about measurement of impact.
- **Impact as significant change.** The term "impact" is used to describe the follow-on (Campbell, 2002; White, 2010) or long-term fundamental (W.K. Kellogg Foundation,

2004) effects of an organization's work, such as effects on need and populations (Poole et al., 2000). In this definition, impact measurement refers to the effects that come after outcomes – often, the long-lasting effects.

- **Impact as valuation.** Impact can refer to the outcomes expressed as financial values. For example, the "social return on investment" (SROI) method calculates impact by multiplying outcomes with financial proxies and estimates of attribution (SROI, 2012). This definition of impact incorporates both contribution and relative importance (value) of different outcomes to stakeholders. Impact refers to the outcomes that matter, or better: outcomes weighted by how much they matter to stakeholders.

A Common Set of Foundational Practices

Almost all impact-measurement approaches recommend the same basic practices, as shown in Figure 1 (Arvidson & Lyon, 2014; also see Likert & Maas, 2015). The steps are not as sequential as implied in this figure. For example, data collection is ongoing throughout the cycle. Engaging stakeholders is integral to every practice.

- **Engage stakeholders:** Stakeholders are those who affect and are affected by your organization (Mitchell, Wood, & Agle, 1997). Primary stakeholders may include members, clients, beneficiaries, staff, funders, and subsets within these groups. Identifying and maintaining an open dialogue with stakeholders is widely recognized as a best practice (Likert & Maas, 2015). Engaging with stakeholders throughout the measurement cycle can help organizations to more *accurately* understand what changed (Mook, Quarter, & Richmond, 2003), and it can be an effective way of creating change through *sense-making* (Baker & Schaltegger, 2015). Communicating results with all stakeholders (not just funders) allows them *to hold organizations to account* (Chen, 2012).
- **Plan your change:** Best practice suggests that – in dialogue with stakeholders – the organization should determine what it intends to achieve and how it will get there (Likert & Maas, 2015). For those who define effectiveness as *responsiveness to stakeholders* (see Sowa, Seldon, & Sandfort, 2004: 713), objectives are emergent, fluid, and change often. For those who define effectiveness as *goal attainment* (see Sowa, Seldon, & Sandfort, 2004: 713; Liket & Maas, 2015: 271), objectives should be stable.
- **Use performance measures:** Express objectives and planned activities in terms of outcomes and outputs, and identify indicators to signal progress. It is best practice to consider both intended and unintended effects to get a broad sense of *what changed* (Campbell, 2002; White, 2010). *Indicators are verifiable measures* that mark or signal that an output, outcome, or impact has been achieved (Melnyk, Steward, & Swink, 2004). Indicators can be quantitative or qualitative. Typically, they do not depict the outcome or impact in its entirety but signal that it has likely happened to some degree.
- **Collect useful data:** Strive to make data collection routine. Ensure that what data you do collect is stored in useful ways. It is time-consuming to collate data from notebooks and Word files on individual computers. Instead, opt for shared spreadsheets, online forms, and specialized software like Sametrica and Impact Dashboard. Periodically review the data to make sure that everything collected is useful in some way.
- **Assess and gauge impact:** Ask if impact is being achieved as expected and if it is

valuable to stakeholders. Indicators never tell the whole story. Take time to make sense of the data in context, with risks and mitigating factors. Even if the results are not measured using experimental or quasi-experimental design (White, 2010), contemplate how much of them can be attributed to the organization (Mayne, 2001). If using the SROI method, it is at this stage that outcomes will be valued with financial proxies (SROI, 2012). For other methods, it is at this stage that organization and project managers draw summative conclusions from that data.

- **Report:** It is best practice to share assessments with stakeholders and to adapt programs and priorities for ongoing impact management (Liket & Maas, 2015). Responding doesn't follow automatically from performance measurement, however. Leaders must decide what to report, what can be learned, and how to adapt. Reports are important to close the loop. With reports, stakeholders can better participate in program design (Benjamin, 2013). Research suggests that nonprofits could do a better job in public reporting (Saxton & Guo, 2011; Dhanani & Connolly, 2012; Connolly & Hyndman, 2013).

Figure 1: The Foundational Practices

These five practices are common to most impact-measurement tools.

(Source: adapted from [Ontario Impact Measurement Task Force Action Plan)]

Resources: There are numerous resources to help organizations start on their performance assessment journey with the common process:	Common Foundations (above) Demonstrating Value Workbook SROI Guide Territoires innovants en économie sociale et solidaire Universal Standards for Social Performance Management: implementation guide

The Causal Model

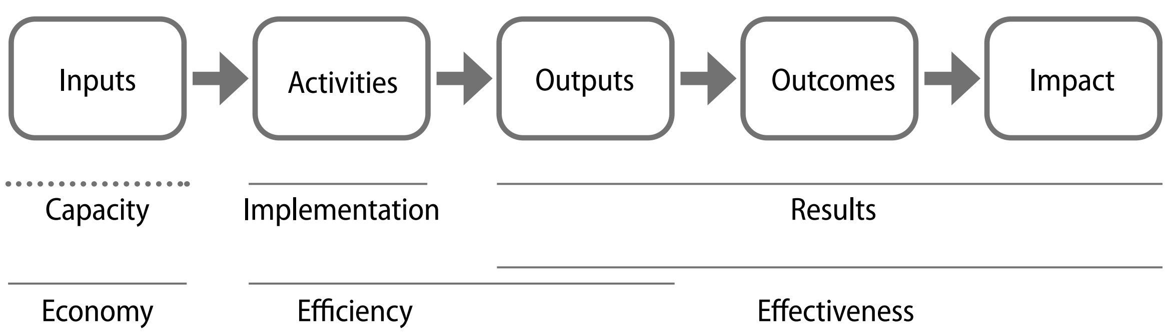
The most foundational practice, "plan your change," recommends that performance assessment be organized around a causal model, one in which attribution is possible. The model depicts how an organization's work will lead to the change it seeks (Weiss, 1997). Such models are at the heart of almost every measurement tool available, often under several variations, including the theory of change (Weiss, 1997), outcome mapping (e.g. Earl, Carden, & Smutylo, 2001), chain of results (e.g. Wimbush, Montague, & Mulherin, 2012; Mayne, 2001), impact map (SROI, 2012), and the logic model (e.g. W.K. Kellogg Foundation, 2004).

These various versions share a common vocabulary.

- **Inputs** are resources mobilized to effect change. Examples include staff, donations of money and goods, investments, volunteer labour, and community support. The list of inputs should be comprehensive and appropriate for the type of program (Poole, Nelson, Carnahan, Chepenik, & Tubiak, 2000).
- **Activities** *describe* what the organization does or will do, such as teach classes or provide counselling. Activities should have a logical link to outputs and be sufficient to achieve outcomes (Poole et al, 2000).
- **Outputs** are the direct products of program activities; they measure the type, level, and quantity of delivery (W.K. Kellogg Foundation, 2004; McLaughlin & Jordan, 1999).
- **Outcomes** are the benefits or results of activities. Outcomes can be short-term or longer-term. They should focus on what changed (Poole et al., 2000) and specify *what* will change, for *whom*, and by *how much*.
- **Impact,** as discussed above, has many meanings. Here we use it to mean "positive and negative, primary and secondary long-term effects produced by an intervention, directly or indirectly, intended or unintended" (IMP Glossary; White, 2010).

Figure 2: The Logic Model

A causal model describes how an organization's work will lead to the change it seeks:



(Source: Adapted from W.K. Kellogg Foundation [2004: 3] and Brignall & Modell [2000: 286])

Causal models differ slightly in their focus. More recent variations – for example outcome mapping and chain of results – emphasize outcomes and impacts. This reflects a prevailing discourse that organizations should move away from tracking outputs and place greater attention on *impact*, however nebulously defined.

The academic literature has a more holistic understanding of *effectiveness*, however. Scholars have noted that capacity and implementation are crucial to creating and sustaining effectiveness (Sowa, Seldon, & Sandfort, 2004; Herman & Renz, 1999). Research suggests that organizations that track capacity (inputs), the particulars of how work is implemented (activities), and results (outputs, outcomes, and impact) are better equipped to manage and adapt and thereby achieve results (Keevers, Treleaven, Sykes, & Darcy, 2012). Models that focus exclusively on outcomes and impacts risk overlooking how much management effort is spent securing the inputs and designing activities, and thus mask the effects of input-related successes (e.g. grants and hiring) on subsequent outcomes and impact success.

For this reason, I recommend that nonprofits start with the logic model (Figure 2). It includes all aspects of the organization's work from inputs, activities, and outputs through to impact (however defined). It can be used to track capacity, implementation, economy, and efficiency, which together enrich a nonprofit manager's understanding of how best to achieve results. Once the logic model is well understood, outcome- and impact-focused models can be layered on top of the logic model to give managers greater insight into the right-hand side of the process.

Resources for creating a causal model:

Creating Your Theory of Change: NPC's Practical Guide

Demonstrating Value Impact Mapping Worksheet

Territoires innovants en économie sociale et solidaire

The Roles of Social Impact Measurement

The above section outlined a straightforward approach to impact measurement. Most practice-oriented impact guides focus on this approach – impact measurement for a single purpose within a single organization. The problem with this simple scenario is that it doesn't reflect the reality nonprofits operate in. In real life, measures must serve multiple purposes, and in real life measures interface across an ecosystem of interconnected organizations. In this section, I examine the limitations, tensions, and dysfunctions that arise when measures are used for multiple purposes within a single organization.

Organizations do performance assessment for several reasons. A classic characterization of measurement is to prove and improve. Two slightly different reasons, as noted by Mayne (2001), are understanding and reporting. Melnyk, Stewart, & Swink (2004) chose three: control, communication, and improvement. (Note that they are using "control" in the accounting sense, meaning to ensure that things go as planned, such as a certain number of outputs within a specific budget. I will refer to this as "manage.") In addition to these *instrumental* roles, measures can be used in an *expressive* role to communicate the values and beliefs of the organization and those within it (Chenhall, Hall, & Smith, 2017). In this sense, working through measurement aims to bring people into agreement (Chenhall, Hall, & Smith, 2013).

Taken together, then, scholarly literature identifies these four slightly overlapping reasons for measurement:

- **Learn:** Get better at having an impact and share knowledge to help others improve.
- **Manage:** Track budgets, activities, and outputs, and link these to results.
- **Account:** Inform stakeholders so they too can learn, manage, account, and communicate.
- **Communicate:** Externally, tell a story to community members and policy-makers to mobilize resources and support; internally, develop a common understanding within the organization about priorities and goals.

What Measurement Can Reasonably Do

How effective can measurement be at helping organizations to learn, manage, account, and communicate? Simply stated, measurement can provide clear answers when there is high certainty of both causal relationships and objectives of the program (Burchell, Clubb, Hopwood, Hughes, & Nahapiet, 1980; Ebrahim & Rangan, 2010; see Figure 3).

- *Certainty of cause and effect* refers to the relationship between an organization's actions and results. Outputs and immediate outcomes are often highly certain (Ebrahim & Rangan, 2010). For example, feeding people reduces their hunger. Further down the causal chain, the relationship between actions and results becomes less certain.
- *Certainty of objectives* refers to consensus on goals (Ebrahim & Rangan, 2010). It is common to have consensus within a single organization. Disagreement over objectives is common across organizations. In the case of food, some people may disagree that the objective is to alleviate immediate hunger, instead aiming for improved nutrition or changing the socioeconomic conditions that create hunger in the first place.

Figure 3: Decision-Making and Organizational Uncertainty

		Certainty of cause and effect Will these actions achieve the aims?	
		Low certainty	High certainty
Certainty of objectives Is this the right thing to aim for?	High certainty	Decision by judgment Measures help organizations LEARN	Decision by computation Measurement can provide ANSWERS
	Low certainty	Decision by inspiration Measures help organizations RATIONALIZE	Decision by compromise Measures help organizations ADVOCATE

(Source: Adapted from Burchell, Clubb, Hopwood, Hughes, & Nahapiet, 1980)

Measurement can provide answers only when objectives are agreed upon and cause and effect are well understood (Burchell et al., 1980). This is often the case when an organization is making decisions about outputs.

If there is some uncertainty, measures can only contribute information to a process of analysis.

- When there is uncertainty about objectives, measurement can inform (but not replace) judgment. In these situations, impact measurement can contribute to learning (Burchell et al., 1980) and, as more is known about cause and effect, it may *eventually* help answer questions.
- When there is uncertainty about cause and effect, measurement can inform (but not replace) negotiation and compromise. In these situations, measures are used like ammunition (Burchell et al., 1980), with each party amassing an arsenal and firing off facts. The measures don't so much answer a question as empower a position.
- When there is uncertainty of objectives *and* cause and effect are not known, measurement is of limited use. At most, measures are mobilized after the fact to make an intuitive process *look* scientific and to rationalize decisions already made (Burchell et al., 1980).

Notice that accountability, communication, and management are not mentioned in Figure 3. How effective measurement is for those tasks will depend on the level of certainty. Some accountability and communication documents will use measurement as after-the-fact rationalizations; others will use measures as ammunition to persuade funders and policy-makers that the project was a success and funding should be renewed.

Some measurement proponents imagine a world where all decisions can be resolved by computation. When existing measures fail to provide unambiguous answers, additional measures are added. When answers remain murky, measures are changed and more added. And on it goes. This is the expectations gap. It is useful to keep in mind that there are many questions that data will never answer. Only when objectives and cause and effect are clear can measures provide answers.

When Measurement Plays Many Roles

Numerous tensions and dysfunctions arise when measurement is called upon to play many roles in an organization, which it almost always is. Four tensions and dysfunctions frequently occur:

- **Dynamic tension:** Effective measurement must be both stable and changing, creating a dynamic tension. For accountability and performance management, measures need to be stable. This is because comparisons over time require that measures stay the same over time. Improvement and innovation, however, require measures to be flexible (Johnston, Brignall, & Fitzgerald, 2002; Melnyk, Stewart, & Swink, 2004). Measures need to change if the program objectives change, and might need to change if activities change. As soon as measures change (good for learning and innovation), the accountability and performance-tracking systems break.
- **Complexity tension:** Measures need to be both complex and simple. Any given set of indicators necessarily excludes some things and prioritizes others. This is helpful when it gives focus to organizations and clarifies roles for employees (Hall, 2002). It can be incredibly harmful, though, when the same types of things are consistently excluded. A larger set of measures will provide a more holistic view (better for communication, learning, and accountability), but too much measurement distracts from the real work (Melnyk, Stewart, & Swink, 2004). For example, Keevers and colleagues (2012) observed how an emphasis on measuring the outcomes (health, security, etc.) of homeless youth undermined the ability of workers to build the relationships with the youth that were necessary to help the youth feel secure, supported, and healthy. Almost every set of impact measures is too simple in some ways and too complex in others.
- **Accountability versus learning:** For effective learning, managers need to be able to look at the data and engage in honest reflection on how to make things better (Ebrahim, 2005). When performance measures drive bonuses to program managers or influence decisions to increase a program's budget, there are incentives to pick measures that managers can control (Mayne, 2001; Theuvsen, 2004) and that are easiest to perform well on (Herman & Renz, 1999). Thus, when measures are part of accountability systems, managers focus on achieving rather than reflecting and improving (Phillips & Karlan, 2018), transforming what could be a holistic learning system into a hierarchical accountability system (O'Dwyer & Underman, 2008). The tension is created because one person's learning system is another person's accountability system: the executive director learns about her organization based on data that her program managers submit (accountability). Her funders learn about their work based in part on the data she submits. Learning and accountability are not either/or, but intertwined.
- **Metric corruption:** One of the greatest challenges of measurement is that the more important a metric, the less effective it becomes (DiMaggio, 2001; Campbell, 1979). DiMaggio (2001: 259) calls this the "flamingo problem" because, like the mallets in *Alice in Wonderland*, "indicators often develop lives of their own, and the meanings change as they are measured." In a statement now referred to as Campbell's Law, "The more any quantitative social indicator is used for social decision-making, the more subject it will be to corruption pressures and the more apt it will be to distort and corrupt the social processes it is intended to monitor" (Campbell, 1979: 85). The

greater the consequences attached to the measure, the more the measure becomes the goal in itself. Like "teaching to the test," organizations seek to increase performance against the indicator rather than seek to influence the phenomenon that the indicator is meant to measure. Slowly the indicator becomes less connected to the phenomenon. Test scores no longer signify a broader notion of learning. Useful indicators often become problematic indicators by virtue of having once been useful.

The above tensions cannot be avoided. There is no known solution. There are, however, strategies that can mitigate their effects.

Strategies for Performance Measurement That Balance the Many Purposes

To minimize harm, best practice recommends a mix of measures across the following categories (Hall, 2008; Herman & Renz, 1999):

- Select at least one outcome indicator for each area or topic that matters (Brignall & Modell, 2000; Melnyk, Steward, & Swink, 2004). Some performance-measurement frameworks, such as the sustainable livelihoods approach, suggest topic areas; otherwise, the outcomes in the organization's causal model are the topics.
- Choose some "lead indicators" that give advance insight into how things are going, as well as indicators that show how things went. This can be thought of as the indicator's *tense* (Melnyk, Steward, & Swink, 2004). For example, if job placement is important, consider tracking both the number of interviews and the number of placements.
- Include output or near-term outcomes that capture the quality of the work. For many organizations, *how* they go about their work affects the results they are likely to achieve (Keevers et al., 2012). Consider, for example, whether staff feel they have enough time to establish rapport with clients.

In combination with a range of indicators, culture and leadership can help to keep an organization focused on forward-looking action. For this, a "good enough" approach to measurement is ideal (Johnston, Brignall, & Fitzgerald, 2002). Provide narrative alongside indicators to put measures in context, always linking back to the desired outcomes and not focusing myopically on the indicators themselves (Ebrahim, 2005).

This section has added complexity to the simple impact-measurement story. It highlights the limitations of measurement in all but the simplest of situations, and it has presented unavoidable tensions and dysfunctions that are present in all performance-measurement systems. Best practice suggests assiduous use of indicators combined with human discretion in their interpretation.

Resources to help nonprofits select indicators:

Choosing and using indicators

S.M.A.R.T. and SICED Indicators

The Interconnectedness of Impact Measurement

This third section adds another level of complexity to performance assessment by noting that rarely is an organization free to determine its own measures and how to use them. Each organization's performance assessment is influenced and constrained by the actions of other organizations. *To fully understand impact measurement, we must understand it in the context of interconnected organizations, each using the measures for multiple purposes.*

Interconnectedness complicates the straightforward approach to performance assessment. Only in an imaginary world is impact measurement about a single organization (Ebrahim, 2005). In reality, nonprofits must negotiate their performance measurement with an interconnected web of funders, collaborators, and partners (O'Dwyer & Boosma, 2015; Thomson, 2011; Benjamin, 2008). Sometimes a more powerful organization, such as a funder, imposes measures. Sometimes a group of nonprofits chooses to align measures so that together they can be more powerful, such as a group of food banks that collaborate on advocacy work. At other times it has more to do with mundane management tasks, such as when a network of independently managed YMCAs collaborate to implement a provincewide project. Large organizations are increasingly conscious of how their measurement choices affect others. All this to say, there are many influences and constraints on a nonprofit's selection of objectives and measures, and these often extend well beyond its immediate stakeholders.

The influence of other organizations is not a one-time event. Best practice recommends that objectives and measures be revisited frequently and in dialogue with stakeholders. When a large funder revisits its causal model, there are implications for those it funds and those who seek funding. Indicators chosen by large coalitions can become *de facto* standards such that even organizations outside of the coalition find that they need to start tracking and reporting on those metrics. Impact measurement in less powerful nonprofits can be constantly at the whim of numerous uncoordinated, well-intentioned changes by the organizations around them.

The risk of promoting the straightforward impact-measurement approach is that, when we suggest that each organization set its own objectives, what we create is an ecosystem where only the powerful get to do so. The less powerful organizations spend their time supplying measurements to feed the bespoke approaches of their more powerful funders, partners, and collaborators and have no time to nurture their own measures (Coule, 2015). Nonprofits intending to follow the common practices (in dialogue with stakeholders) instead find themselves ensnared in hierarchical top-down systems to accommodate funder needs (Schmitz, Raggo, & Bruno-van Vijfejken, 2012).

Interconnectedness also complicates the problems that arise from the multiple purposes that measures must fulfil. This is because measures change roles as they move from one organization to the next. Governments, foundations, and membership bodies have their own accountabilities to the public (Newcomer, 2011; Ostrower, 2006). They too need to learn, advocate, and communicate. To do this they rely on the *accountability* measures provided by grantees. One organization's accountability is another organization's learning. Depending on what funders need to know, they may ask their grantees for different types of reporting, such as cost-benefit analysis, formative evaluation, or outcomes measurement (Carman, 2010). The different roles that measures must fulfil create additional tensions in an interconnected ecosystem.

Moreover, agreeing on metrics is challenging because different organizations in the ecosystem need different types of measures for different types of accountability and learning. Funders are accountable for community-level outcomes. A single implementing nonprofit is unlikely to have an attributable effect on those outcomes (Campbell, 2002), never mind have the capacity to measure that effect with contribution. This is a problem that "collective impact," discussed in the next section, has sought to address.

From "Anything Goes" to "One Right Way"

In response to the above coordination problems, many have argued that what we need is a *uniform* approach. Uniformity refers to a single set of processes and indicators to assess performance. If the problem is too much diversity in how organizations measure (Carman, 2010), uniformity might appear to be a reasonable solution. Uniformity is attractive because it appears to offer simplicity, comparability, and the ability to aggregate data.

Uniform approaches fall into four broad categories: indicator banks, collective impact, certifications, and commensuration.

Indicator banks are lists of indicators, organized by field or topic, that have been selected and agreed upon by a community of users (organizations, funders, etc). The indicators are then published so other organizations outside the initial group can use them. The objective of these standards is to get similar organizations measuring the same thing in the same way.

Indicator banks can be top-down, such as when funders require fundees to report on a list of prescribed indicators. This exacerbates the learning-accountability tension noted above. Uniform approaches can also undermine the organization's autonomy (Baur & Schmitz, 2012; Coule, 2015).

Alternatively, *indicator taxonomies* offer a flexible take-it-or-leave-it approach. Users select indicators from a "pool," only as are appropriate, while retaining the freedom to design their own measures. This is a preferable approach. Here are a few examples of this take-it-or-leave-it variety:

- Urban Institute's Outcome Indicators Project (2004) organizes outcome indicators into 14 fields of nonprofit work (for example adult education, performing arts, and prisoner re-entry).
- IRIS (2008) offers a catalogue of indicators for businesses, social enterprises, and nonprofits interested in assessing impact, particularly in the context of impact investing (see Chapter 14 by Harji and Hebb). The indicators cover 12 thematic areas, including agriculture, education, health, and housing. Indicators are numbered so they are easily identified. For example, "total permanent employees" is indicator O18869 and is defined as the "number of people employed by the organization as of the end of the reporting period." Many IRIS indicators are relevant to nonprofits.
- United Nations Sustainable Development Goals (UN SDGs) (2015) are an international agreement on 17 goals, each of which has several targets for which there are specific

indicators. Alliance 2030 is a network of Canadian organizations collaborating for the achievement and measurement of the UN SDGs.

- Global Reporting Initiative (GRI) (1997) is a set of indicators, but more than that, it is a standard for determining which economic, social, and environmental impacts an organization – particularly a for-profit corporation – should be measuring and reporting.

Collective impact eschews the notion that impact measurement should be determined by each organization for its own learning, management, accountability, and communication. Instead, it conceives of collectives of organizations coming together to tackle social problems with a shared vision, shared *uniform* measurement, and coordinating body, referred to as the "backbone organization" (Kania & Kramer, 2011; Cabaj & Weaver, 2016). Together these organizations learn, manage, account, and communicate. Together they set objectives and select indicators.

For example, the First 2000 Days Network is a collective-impact approach to early childhood development in six western provinces and northern territories in Canada. Partners aligned their measurement framework to allow "different organizations, with different approaches or strategies to be able to speak the same language and more easily work towards the same goal."

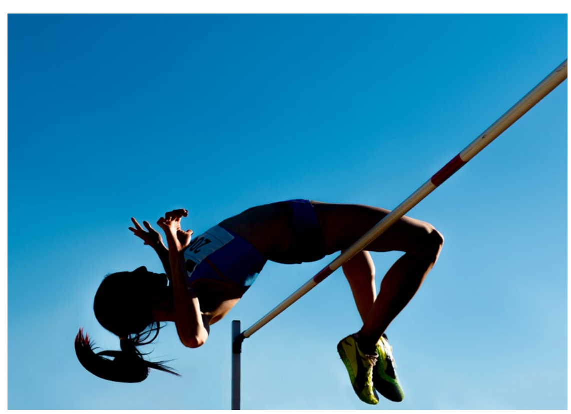
In essence, collective impact shifts impact-measurement basics (section one) to the collective rather than the organization. Although this has advantages, it risks impeding the learning and management systems within individual organizations (Baur & Schmitz, 2012; Coule, 2015). Further, it only partially solves part of the problem of interconnected organizations by shifting the problem of impact-measurement basics from organization-level problems to network-level problems.

Certifications and ratings are a different approach to uniformity (Carman & Fredericks, 2013; Feng, Neely, & Slatten, 2016). Both certification and rating have a series of performance criteria that organizations are evaluated against. Ratings are more like the long jump: every additional centimetre of impact counts. Certifications are more like the high jump: organizations clear the bar or they don't. With certifications, there is no difference between an organization that misses by a little and one that misses by a lot.

Figure 4: Ratings and certifications

Ratings are like the long jump:
get as far as you can.

Certifications are like the high jump:
clear the bar.



Examples of certifications are Canada Organic, FAIRTRADE, Certified B Corporation, and Imagine Canada's Standards Program (see Chapter 7, Phillips, Dougherty, & Barr). Charity Intelligence's star-rating of Canadian charities is akin to the long jump – a third-party rating system rather than certification, analogous to Charity Navigator and Candid (the merger of GuideStar and the Foundation Center) in the US (Sloan, 2008). It includes an assessment of the disclosure of impact information, but it does not evaluate impact due to limited public reporting.

B Lab's B Assessment and B Corp Certification is a combination of rating and certifying: it combines high jump with long jump. Organizations take the B Assessment, which generates a score (long jump). For certification, the bar is set at 80. Organizations can use their score or certification to communicate impact. Currently, there are more than 230 B Corps in Canada.

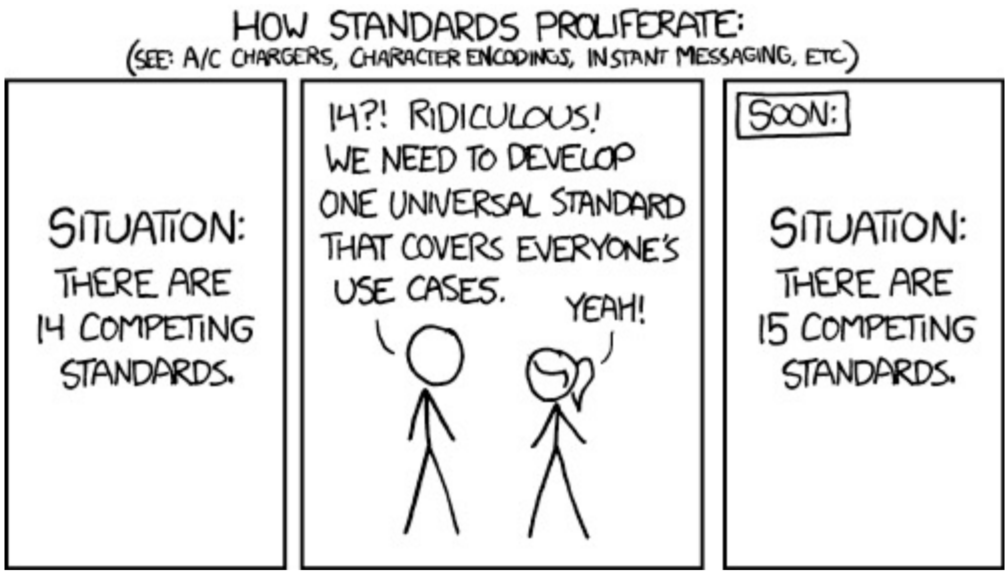
Commensuration converts all outcome indicators into a common metric, usually monetary. Once commensurate, it is easier to compare impacts. Cost-benefit and SROI are examples of commensuration. The SROI Guidebook (SROI, 2012: 11) advises against comparing the SROIs of organizations because variability in the process can cause similar outcomes to have dissimilar economic values. So, although it is *possible* to compare the SROI of a homeless shelter to that of a public library, in that one number will be higher than the other the *validity* of the comparison is questionable. Despite these words of caution, SROI and other commensuration techniques are often used to compare projects and organizations.

Limits and Challenges to Uniformity

There are several limits to uniformity (Ruff & Olsen, 2016). The individual organization's loss of autonomy – resulting in less ability to account, learn, manage, and communicate – has already been mentioned. In addition are the proliferation of standards and the danger of a single story. There have been many attempts to standardize charity and nonprofit performance measurement, dating as far back as the early 1900s. None of the early attempts are around today. The (proposed) standards of today are mostly recent endeavours.

A significant challenge with uniform standards is that if they are too lax or too rigorous, competing standards enter the market. This results in a proliferation of standards and a wide variation in quality and rigour that outsiders have a difficult time navigating (Reinecke, Manning, & von Hagen, 2012). It can be difficult for standards to remain meaningful, and the proliferation of standards becomes fodder for even further proliferation (see Figure 5).

Figure 5: How Standards Proliferate



(Source: https://xkcd.com/927/ Creative Commons licence)

Perhaps the greatest limitation of uniformity is the danger of creating a single story about *what matters* (Coule, 2015). All measurement systems value something and undervalue or ignore other things. Those choices are necessary for the system to be useful. However, those choices are dangerous when they are the be-all and end-all of what will count in society.

In sum, any uniform approach that deprives organizations of the ability to make measurement work for learning, improvement, and management is unlikely to have long-lasting traction (Timmermans & Epstein, 2010). If we are to have an impact-measurement standard, it must be a flexible standard (Timmermans & Epstein, 2010), meaning it must be effective for a single organization and a single purpose *and* provide a way of communicating, aggregating, and comparing (Ruff & Olsen, 2016). It must allow competing ways of thinking about what makes a "good" or effective organization (Brunsson, Rasche, & Seidl, 2012). It must also attend to the particularities of the situation rather than conformity to prescribed ends (Campbell, 2002; Coule, 2015). The Common Approach to Impact Measurement is one attempt at creating a flexible standard.

Nonprofits already know this. Although many are constrained by funder demands, there is evidence that nonprofits are finding space for flexibility and autonomy within those constraints by partially resisting the measurement obligations placed on them (Arvidson & Lyon, 2014). At present, that is the closest thing the sector has to a best practice for managing impact measurement in an interconnected ecosystem.

Conclusion: Takeaways for Canadian Organizations

This section endeavours to translate the above content into practical steps that Canadian nonprofit leaders, and their public- and private-sector partners, can take today to improve impact measurement in their organizations.

Seven Tips for More Effective Impact Measurement and Use

1. ***Go for "good enough" when measuring impact.*** Doing a good job measuring outputs and near-term outcomes can be enough when combined with other low-cost steps. Use evidence-based assumptions to extrapolate outputs to impact. Compare changes across time (before and after). Organize program work in mini-trials or experiments and compare across sites to learn what works best. This can be done with a few key performance indicators. (See the Robin Hood Foundation for an example.)
2. ***Engage stakeholders.*** Not only will your organization be better informed, but a measurement approach that is well connected to what community members want and need is a powerful anchor. It can be useful in persuading others to accept your measures rather than adapting to theirs. A cautionary note: some stakeholder engagement can be invasive and create burdens on respondents. Respect the privacy and time of program participants.
3. ***Use common indicators as much as possible.*** Using a causal model and common practices should suggest relevant outputs and outcomes. Check to see if some of the indicator taxonomies (e.g. IRIS, SDGs, Urban Institute, GRI) have indicators to address those output and outcomes, and use them if they do. Again, these are powerful anchors that will help to protect your organization's performance assessment from external influence. Do not change your organization's objectives to match an indicator!
4. ***Use technology to harness the data the organization is already tracking.*** In my experience, most charities and social enterprises track sufficient data but in a disorganized way: they are either on paper or in files on individual computers. Disparate data, whether quantitative or qualitative, are difficult to use when writing reports and grant applications.
5. ***Gather a range of indicators to mitigate the tensions and dysfunctions of measurement, but don't gather more data than you are going to use.*** And, especially if you are a funder, don't ask grantees for impact measures that don't figure into your decision-making and accountability systems. More performance measurement is not always a good thing (Ebrahim, 2005).
6. ***The benefits of transparency and accountability have their limits.*** It is okay to keep some metrics private. Accountability is seen as both a mechanism and a virtue (Messner, 2009; Roberts, 2009). Nonprofits may feel that they must share everything to be more virtuous. It is okay to abide by the mechanism and keep some measures private for real learning out of the spotlight.
7. ***Enjoy it!*** Measurement is kind of fun. Most nonprofit and social enterprise leaders are passionate about the work they do, and measurement is an ideal weekly task to let you really think big about what you are doing, why, and how you can do better.

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Biography

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Measuring Impact and Communicating Success

Chapter 34

Big Data Won't Save Us: Fixing the Impact Evaluation Crisis

Michael Lenczner and Jesse Bourns, Ajah and Powered by Data
Tracey Lauriault, Carleton University

Some suggest that we are in the midst of the "most disruptive and transformative shift in history," a Fourth Industrial Revolution building on the digital revolution, which is characterized by "a fusion of technologies" and is predicted to offer "huge opportunities to transform social good organizations for the better" (Acker, 2017; Schwab, 2016). Nonprofit professionals are assailed with an unending supply of articles and blog posts extolling the potential of big data, blockchain, and AI. These technologically enthusiastic promises suggest that these newly developed practices will enhance their work and enable their organizations to better demonstrate their impact. While, as technologists and data specialists working with nonprofits, we are attentive to new technological possibilities, we are not disposed to jump on this bandwagon. Instead, we challenge the notion that technology alone will solve the challenges the sector faces – especially the pressure for better impact evaluation. Instead we argue that it is impossible to realize the potential benefits of new technologies for using data without first changing our conception of the problem of impact evaluation and the role of data in addressing it.

Impact Evaluation Is Broken

For decades, the nonprofit sector has failed to effectively measure the impact of its work (Benjamin, 2012; Ebrahim & Rangan, 2014; Schnurbein, 2016). We don't imagine this is revelatory to those familiar with the operation of nonprofit organizations (NPOs): leaders within the sector have been discussing this for years (Hall, Phillips, Meillat, & Pickering, 2003; Lasby, 2019; Phillips & Carlan, 2018). Writing in *Alliance* magazine in 2016, Caroline Fiennes and Ken Berger identify how the "impact revolution" – a movement they've championed that aims to direct philanthropic resources toward interventions with proven impact – went wrong. It turns out, as Fiennes and Berger make clear, that NPOs have neither the incentives nor the skills to effectively measure their own impact. With exceptions, our experiences within the nonprofit sector have borne this out. As technologists who have spent two decades working to advance evidence-informed decision-making with data within the sector and as an academic studying these and other topics related to our use of data, we have seen firsthand the flaws in our sector's approach to evaluation (Kitchin, Lauriault, & McArdle, 2014).

To better understand this failure, we can start by examining the language that is routinely used to describe the sector's approach to evaluation. People working within the sector would be familiar with the idea that nonprofits often seek to *demonstrate* their impact through evaluation. This framing assumes that programs or interventions have an impact and, further, that the impact is positive. A nonprofit operating within this system will most likely use evaluation to highlight the *successes* of their programs or interventions.

Our choice of words is telling. By assuming that programs have a positive impact so that we only have to demonstrate impact, we have abdicated our responsibility to *determine* the success of our work before we highlight it. The effect of our collective focus on demonstrating impact, rather than determining it, means that we often don't know whether programs are successful. How is it possible to improve programs to better serve intended beneficiaries if we aren't first seeking to determine the actual impact of our work? Whereas our focus on demonstrating impact has led us to emphasize success wherever we can find it, a focus on determining impact would prompt us to ask, "Are the beneficiaries we serve through a given program or intervention better off than people in similar situations who received different services, or no services at all?" (Paul & Elder, 2003)

Our position in this paper is not that the nonprofit sector's approach to evaluation is *irrevocably* broken; we believe in the capacity of our sector to take on this challenge. But we do need to properly identify the problems with impact evaluation to start the work of improvement. For example, consider the question of statistical significance (National Academy of Science, 2018): simply put, there's very little we can learn about the effectiveness of a program by looking at its impact on the small number of clients most NPOs serve. Having an adequate sample size is necessary for any findings to be considered valid. For the most part, even agencies with relatively large programs don't serve enough people for their evaluations to be statistically significant.

A second issue is that most evaluations conducted by NPOs don't make rigorous, if any, comparisons with other programs, particularly those of other organizations. Unless an evaluation is designed to capture how a given program compares to other interventions, or against no intervention at all, we have no idea whether that program is successful. For example, if 15 high school students participating in a mentoring program go on to attend college, we can congratulate those 15 students, but we can't say with any certainty that the mentoring program was the thing that got them there. The same issue of attribution applies to indicators such as the number of children reading at a specific grade level, the number of homeless individuals moved to transitional housing, and so on. In short, the metrics we routinely rely on to demonstrate our success generally provide an incomplete picture of the impact of our work. In addition, NPOs rarely share their data or their evaluations with other organizations, so they often keep reinventing theories of change and metrics (Hall et al., 2003).

Recognizing and accepting the sector's inability to (even approximately) evaluate its work is, as we said, the start of this conversation. However, an even larger question than issues of sample sizes or benchmarks looms for us: why has the nonprofit sector for so long been content to conduct poor evaluations of poor quality, or that we know are meaningless?

Why Is Everything So Bad?

When we say that the nonprofit sector *must* address these inherent flaws in its approach to evaluation, we want to be clear that we see this as a moral imperative. Our sector's failure to properly evaluate its work prevents us from understanding and improving our interventions. We can't reliably know the impact of the services we offer to people and as a result can't determine how to improve those services, which hinders us from making progress within our areas of focus or more broadly as a sector. By allowing the status quo to persist, we are choosing to deprioritize the interests of the communities we serve in favour of the ongoing operations of our organizations.

Although leaders within the nonprofit sector have raised these issues before, perhaps most vocally in the context of international development (Sabet & Brown, 2018), these voices remain a minority. In our experience, conversations within the sector surrounding the challenges of effective evaluation begin, and often end, with two explanations for why evaluations fall short: 1) the complexity of measuring impact, and 2) the incentives created by philanthropic funders that pressure NPOs to use evaluation to demonstrate success.

These explanations highlight very real challenges that deserve closer examination. The sector's impacts *are* difficult to measure. People are not widgets or dollars after all; it is difficult to precisely quantify the changes beneficiaries may or may not experience over time. And, funders do create the incentives that lead to flawed evaluations (Behrens & Kelly, 2008; Buteau, Gopal, & Glickman, 2014; Greenwald, 2013; Mayhew, 2012). In the interests of ensuring the positive impact of their investments, funders naturally seek to fund successful programs or organizations. As a result, nonprofits are kept under pressure to ensure that their programs always appear successful in order to be funded. Our collective mindset toward demonstrating rather than determining impact is borne out of this system. To secure funding, and maintain the ability to continue serving beneficiaries, NPOs must do all they can to establish success.

While we acknowledge these are real and serious challenges, we do not accept that they should prevent us from making progress as a sector toward more effective impact evaluation. These challenges are not so intractable as to prevent the entire sector from moving forward. In fact, the premise that conducting meaningful evaluations poses an insurmountable challenge to a sector devoted to solving some of society's most complex problems should strike us as ridiculous. How can anyone who works for a nonprofit whose mission is to end homelessness or hunger or fight poverty or systemic racism claim that evaluating the impact of their work is just *too hard* to be worth it? Indeed, the measurement dilemmas have been discussed and worked on by NPOs and evaluation specialists for decades (Hall et al., 2003; Mertens & Hesse-Biber, 2013; Vo & Christie, 2018), with at least incremental progress. Rather than contenting ourselves with the explanation that impact evaluation is "stuck" because of measurement issues, we should view improving impact evaluations as one of our most pressing tasks.

The notion that the constraints imposed (intentionally or not) by funders cannot be overcome also needs to be dispelled. When NPOs come together, they have been able to change the behaviour of at least some funders. For example, in the wake of growing pressure from funders for NPOs to reduce their "overheads" (notably administrative and fundraising costs), the sector pushed back against the idea that the merit of a charity is inversely correlated to its overhead expenses (see Chapter 36 by Riseboro). In this case, NPOs have demonstrated some success in educating funders; many funders now accept (and sometimes even appreciate) that appropriate overhead expenses need to be included in the projects they fund. More recently, the growing movement of social justice philanthropy – which recognizes the systemic impacts of philanthropy – is actively working to empower impacted communities to change philanthropic practices (e.g. Edge Funders Alliance). These examples demonstrate that, while NPOs certainly operate within a system that funders have created, it is possible to change the way that system operates (Fantuzzo & Culhane, 2015).

It is important to identify these systemic issues with the current approach to evaluation in the sector, but we need to recognize that these are not insurmountable. Both NPOs and funders have a responsibility to move beyond these standard responses to the problem of measuring our impact. As a sector, we have an obligation to continuously improve our approaches to determining the impact of our efforts on intended beneficiaries in order to improve those efforts. If we as a sector wake up every day prepared to tackle our society's most intractable problems – poverty, homelessness, climate change, racism, to name a few – then surely we can apply the same perseverance, dedication, and ingenuity to the challenges of measuring the impact of our work.

This takes us to our next question: how, when, and where do "new" technologies and techniques help make impact evaluation more effective?

Aren't We Already Working on Fixing This?

There is no doubt that stakeholders within the nonprofit sector have identified promising approaches and practices that use data and technology to improve our sector's approach to impact evaluation. In general, these innovations are tactics that may address specific technical challenges related to impact evaluation. But they are not a solution to the underlying problems. Some tactics are, however, worth exploring so that, as a sector, we can better understand what they can, and cannot, do. In this section, we identify and describe four prominent approaches: 1) big data and machine learning, 2) administrative data, 3) randomized control trials, and 4) impact standards and reporting platforms.

Big Data and Machine Learning

Big data and machine learning (Kitchin & Lauriault, 2018) – also referred to as artificial intelligence or "AI" and in some instances algorithmic decision-making – are among the most discussed new "tools" for the nonprofit sector. While they are distinct practices, they have sufficiently similar characteristics that they can be grouped together for our purposes.

Big data is a term that refers to the set of practices for working with extremely large datasets. While there is no concrete definition of what makes a dataset a "big" one, the defining characteristics are generally the storage capacity, processing power, and methodologies for analysis required to make use of those data (Kitchin & McArdle, 2016). In application, working with big data means interacting with millions – or billions – of records, high in volume, that reveal, via sheer quantity (or volume, variety, or velocity), patterns that would not be discernible in a "regular" dataset.

Big data are usually touted as a means to determine impact by identifying patterns in program results. It is important to note that the conditions under which big data can be collected and analyzed are rarely, if ever, present within the nonprofit sector. The main challenge is a question of supply: individual NPOs or even collaboratives of organizations don't handle data in a large enough volume to be considered "big data." Industries and organizations (see the UN Global Working Group on Big Data) that do make use of big data operate in very different contexts, such as processing constantly changing outputs from networks of sensors or analyzing massive amounts of real-time financial transactions. These needs and practices are very far from the reality of information collection related to beneficiary outcomes by NPOs. Ultimately, big data is often an overhyped and misunderstood solution that may offer promise in specific areas but is not applicable to the resolution of the problems facing our sector in terms of impact evaluation.

Machine learning or AI refers to a different set of practices in which algorithms or models for computer-driven decision-making are "trained" using existing data to reliably replicate the decisions and criteria that were contained within that original training data. For example, you can teach a machine to recognize and filter spam emails by giving it many, many examples of accurately labelled real and spam emails from which the machine learns to tell the difference. Like big data, machine learning has been the focus of recent hype in the sector, with examples of fantastical results showing computers capable of identifying patterns and making judgements in a "human" fashion. For the nonprofit sector, the prospect of using AI to predict the outcomes of social programs, and therefore direct resources more effectively, is certainly exciting, and we're hopeful that advances in this field will continue.

It's important to recognize, however, that the use of machine learning is applicable only under a specific set of conditions – and can even be harmful when those conditions are not present. It depends entirely on training data that consists of thousands of records – the "right" answers that the machine can learn over time to replicate. This volume of training data generally does not exist and is difficult to create. In addition to being difficult to obtain or create, training data can also be flawed, and therefore limited in how they can be applied by machines. For example, relying on arrest records as training data to allow AI to predict future crimes leads to racial profiling because the arrest records themselves reflect a racial bias (Schlehahn et al., 2015). Ultimately, AI can be useful for tasks that require simple perception (identifying a song you hear on the radio or a face in a photo) and some tasks that require judgement (identifying spam emails or copyright violations). However, it is not reliable when applied to the questions and problems being discussed here. Given this level of inaccuracy, it is likely irresponsible and damaging for our sector to apply machine learning or AI broadly to predict social outcomes.

Administrative Data

The use of administrative data (Statistics Canada, 2019) involves repurposing data collected by the government that result from the administration of programs and services to identify client outcomes resulting from nonprofit interventions. Often these are data related to the records kept about and the services provided to citizens, such as education, employment, social services, or economic development. Because this information relates to the activities of government, it is usually more detailed and granular than data an individual NPO would be able to collect through surveys or other approaches to data collection. For example, recidivism programs can use incarceration records to determine whether a past beneficiary of a rehabilitation program has reoffended and government employment data to determine whether an employment service helped beneficiaries find work. Increasing the ethical (i.e. appropriately transparent and governed) use of administrative data is, in our opinion, one of the most promising approaches to substantially improving impact evaluation.

In practice, expanding the use of administrative data means creating mechanisms for NPOs to access information about their clients' outcomes without sharing access to individual information for each client. This could be achieved, for example, by sending data from cohorts of users to an intermediary who can analyze the data and return aggregate results about the cohort to the NPO. Organizations could learn more about the results of their work from this data than they could from surveys about clients' impressions of a program. Administrative data also allows for the possibility of collecting aggregated data from similar cohorts who did and did not receive the intervention, creating pseudo "control groups" that can be used for comparisons.

In order for administrative data to be used successfully, governments must have data related to outcomes that NPOs are trying to measure. Areas of social service work connected to activities of government – such as employment, education, taxation, and benefits – could benefit. Many programs administered by NPOs, however, would not be connected to those activities, and therefore, government would not have relevant data about that particular group of clients. Even in areas where NPOs can benefit from administrative data, they would still require a sufficiently large client base to obtain statistically significant results.

Randomized Control Trials

Another practice that has achieved more attention in the last two decades, especially in the field of international development, is the application of randomized control trials (RCTs) to NPO interventions. Indeed, RCTs have been hailed as the "gold standard" of evaluation (Camfield & Duvendack, 2014; Bédéccarrats, Guérin, & Roubaud, 2019). RCTs, a practice the social sector has adopted from medicine and pharmacology, consist of offering an intervention to a randomly selected group within a beneficiary population while simultaneously gathering data on other members of the population that either did not choose or did not qualify to receive the intervention. By comparing data collected from these two groups, an organization can better determine the impact of a given intervention on that population. If we know, for example, that 80% of people who participated in a job-training program were employed one year later, while only 30% of those who didn't participate in the training found employment, we can conclude the job-training program was effective. RCTs can determine a relationship between interventions and their outcomes; when it's possible, feasible, and ethical for an NPO to use them, they can improve the quality of evaluations. For an NPO to apply an RCT, however, they must have access to large enough control and beneficiary groups for their results to be statistically significant (read: very large). Significant funding is required to support the activity, as is reliable access to a control group from whom they can collect data and who they can be certain have not received any intervention during the trial. For the most part, these conditions are not present for the interventions of nonprofits. Perhaps most importantly, RCTs can be applied in unethical ways: in the past, RCTs have been conducted in ways that do not respect the rights of the participants. In order to be applied in the nonprofit sector, it is important to consider these risks and potential harms (May, 2012).

Impact Standards and Reporting Platforms

Impact standards and reporting platforms collectively refer to a broad set of practices and initiatives focused on standardizing various aspects of impact data and reporting (see Chapter 33 by Ruff). These range from standardized sets of metrics and indicators to specific platforms that gather and display results for participating projects. These initiatives develop a standard "set" of information to collect and share, and then promote that standard to NPOs and funders to incorporate into their operations and programs. As more organizations join these initiatives and refine the standards, the usefulness and breadth of the data are intended to increase proportionally. In the case of reporting platforms, software is promoted to NPOs working in similar areas, with tools for the collection of indicator data as part of the normal operations of programs. Because these data are entered into a standard system, the data are structured in the same way and are therefore easier to pool together to derive cross-project insights. Specific nonprofit subsectors, such as foster care or nutrition, often have dedicated initiatives and platforms, with measures developed and platforms built around the language and workflows specific to the subsector (Fantuzzo & Culhane, 2015).

While this approach is promising, its success depends on a critical mass of NPOs adopting the shared standards for measurement and using the platforms for reporting their outcomes. This level of buy-in is very difficult to achieve, and these projects often have inadequate strategies for securing adoption. It is also technically challenging to standardize impact measurements and reporting platforms across the sector, where there is often a lack of consensus on the specific data to be collected. This is why more focused subsectors have thus far had more success with this approach.

The challenges of adoption faced by impact standards and reporting platforms are exacerbated by the dominant, project-based funding model in the sector. The long-term nature of these initiatives makes them incompatible with the short-term funding imposed by funders. In addition, the tendency of funders to cherry-pick one of these initiatives at a time also hinders adoption. When one impact standard or reporting platform fails to reach critical mass, it is relegated to the dustbin of history, while funders move on to the next impact measurement panacea.

For these reasons, these standards and platforms will not be able to "solve" impact evaluation at a sectoral level until there is a broad shift in how the sector approaches and funds these types of initiatives.

Although these are all promising *tactics*, none represent a *solution* that can address the sector's problem of impact evaluation. Like a city that keeps building more highways in an effort to solve congestion, the sector has failed to address the root cause of the problem. For our sector to move forward, we must change our conception of data and technology to be able to apply them to the challenges of evaluating impact.

Reconceptualizing the Impact Evaluation Problem

As a sector, we need to change our understanding of the problem with impact evaluation and reframe the approach and connection with data and technology. By doing so, we could identify and apply better and more focused solutions, as well as develop new approaches that address the larger problem. The emerging field of critical data studies (Dalton & Thatcher, 2014; Kitchin & Lauriault, 2018) offers some promising directions: specifically, the theory of social shaping of technology (SST) and the concept of data assemblages. While these are important concepts, they are neither complex nor advanced. Rather, they are fundamental concepts that undergraduate and graduate students in critical data studies learn in order to understand, critique, and apply to the use of data and evidence in society. These frameworks provide a necessary foundation for students preparing for careers in developing public policy, conducting academic research, and leading nonprofits. However, critical data concepts and approaches are not yet generally known, understood, or widely applied by people currently working in the sector.

Social Shaping of Technology

Social shaping of technology (SST) theory (MacKenzie & Wajcman, 1985; Bijker, Hughes, & Pinch, 1987) postulates that data, technology, and society dynamically interact with and mutually shape one another. In other words, the development of technology is shaped by society, and that technology has deep impacts on society. The concept of social shaping is used to understand the relationship between the social context that influences technological innovation and the technological context that shapes societal choices.

This theory is contrasted with technological determinism, which argues that technology progresses along a predetermined path, or that technology determines social outcomes. Technological determinism suggests that technologies are inevitable, instrumental, and neutral, but it does not consider how societal factors and human agency shape technology. SST theory asserts that data and related technologies *do not* have a predetermined path but instead emerge as a result of specific social, historical, political, or economic contexts, and then dynamically interact with and impact society in fundamental ways.

This view offers the nonprofit sector a way to understand how choices about the data and evidence we collect and the technologies we implement shape our practices, and in turn affect our beneficiaries. This understanding of the relationship between technology and society allows us to reconceive the barriers to meaningful evaluation as a product of our *social context* rather than simply the result of the data and technological limitations of individual organizations.
For example, considering the low quality and piecemeal nature of data systems used within

the foster-care system through this lens shifts our understanding of the problem (Crowell & Nichols, 2020). Our current situation is not the result of the complexity of the information or the technical limitations of the system. In fact, these are standard data- and technology-management questions that have been addressed with some success by many other sectors. The problem with data within the foster-care system is instead the result of our society's deprioritization of the needs of those specific youth. Similarly, our failure to recognize the circumstances of people with disabilities in custodial institutions, or to even count how many of them there are, has rendered this population invisible when it comes to the rollout of the COVID-19 vaccine (Linton, Lauriault, & Chokly, 2021). Their deprioritization is not a data or technological problem; it is a systemic societal problem.

SST theory reminds us that priorities in the sector shape our capacity to collect and use data. If we decide that data matter, we can improve our use of data – and thus our ability to meaningfully evaluate our work – and could prioritize the needs of certain groups. From a practical perspective, solving the problems around nonprofit evaluation requires buy-in from those with social and political power working in conjunction with technologists and data specialists. Neither group can effectively address these problems alone.

Data Assemblages

The second concept we believe would be useful for the sector to adopt is social and technical data assemblages (Deleuze & Guattari, 1987; DeLanda, 2006; Kitchin & Lauriault, 2018). A data assemblage can be defined as a complex socio-technical system, composed of many apparatuses and elements that are thoroughly entwined with the production of data (Kitchin, 2014a: 24). A data assemblage consists of more than the data system/infrastructure itself, such as a big data system, an open data repository, or a data archive. Rather, it includes the technological, political, social, and economic apparatuses that affect their characteristics, function, and development (Kitchin & Lauriault, 2018).

Within the nonprofit sector, a data assemblage includes (but is not limited to) the institutional and funding environment, the organizations that collect data, the type of data collected and their subject matter, the technological systems and tools used, and the mechanisms for governing these systems. Internalizing this broader understanding of data assemblages helps us to conceive of these systems as a combination of *all* their components, and not as discrete actors disassociated from the system, technologies, or databases we produce and the data we use. The sector's beneficiaries, stakeholders, funding streams, and practices are also part of this assemblage that can influence these systems and be influenced themselves. As a sector, when we seek to make changes to the way we approach and apply data practices and technology, we need to include these other components in that work.

The Homeless Individuals and Families Information System (HIFIS), for example, is a data assemblage used by the nonprofit sector to deliver and improve services owned, governed, produced, and managed by the federal government in collaboration with local HIFIS community coordinators and users across the country. It is a national system with local partners and users that indirectly intervenes and accounts for people experiencing homelessness. HIFIS is accessible to anyone who wishes to install and use it, and it allows NPOs to capture, access, and upload information about their beneficiaries in real time, enabling communities to employ a coordinated approach to address homelessness in Canada. As a data assemblage, HIFIS is more than a system for collecting data about homeless shelter use. It also captures the attitudes and behaviours of its partners, funders, service providers, and academic researchers. It creates mechanisms for shared decision-making about the system's features and uses, applies privacy regulation and other policies at all levels of government, and influences the research being done and the actions taken in this area. Any potential change to HIFIS requires considering these other components – and changes to those components have implications for the software and data (Lauriault, 2018).

As we stated earlier in this section, these two concepts offer a new direction for the sector to approach its problems with impact evaluation. A deeper understanding of the social shaping of technology theory can enable the nonprofit sector to reconceive of our failures to improve our ability to evaluate as a result of our priorities as a sector, rather than as a result of our capacity to collect or use data. Equally, understanding the interconnected components within a data assemblage can shift how we conceive of the "problem" of funders who seek to invest in successful interventions. The behaviours, attitudes, and constraints of our funders are not the external cause of our inability to improve impact evaluations; they are (or should be seen as) one *component* of a data assemblage that also includes data repositories and other technologies. As such, these behaviours and constraints must be considered and adapted to better serve our sector in the same way we would adapt a database to meet our needs.

Conclusion

There is no doubt in our minds that we in the nonprofit sector have failed to meaningfully evaluate the impact of our work. We have a moral obligation to address these limitations with urgency because, as the current pandemic context has highlighted, our beneficiaries are living in crisis. The sector needs to shift from a view of *demonstrating* to one of *determining* impact. We disagree, however, with a dominant narrative that this crisis will be solved primarily by new technologies or data practices. While new technologies or improved data capacity may allow for improvements within individual NPOs, we will continue to fail to move forward as a sector unless we accept the importance of impact evaluation and revise our understanding of what is preventing us from making progress in our use of effective impact measurement. Social shaping of technology theory and data assemblages are two theoretical frameworks that can help us make sector-wide changes in our approach to evaluation. We apply these frameworks in our work and are thankful for the opportunity to share these with you for the benefit of the sector.

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Biography

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Michael Lenczner works in the areas of nonprofit information management and open government. He is a frequent collaborator on academic-community partnerships, and he serves on several nonprofit boards and advisory groups related to technology, democracy, and civil society. He is the CEO of Ajah; director of Powered by Data, a nonprofit initiative on the MakeWay shared platform; and a fellow at the School of Public Policy and Administration of Carleton University.

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Tracey Lauriault is an associate professor at Carleton University's School of Journalism and Communication. She is one of the founders of critical data studies and of open data in Canada. She has expertise in data infrastructures, spatial media, and smart cities and is especially interested in the assemblage of social and technological processes such as artificial intelligence and machine learning (AI/ML), standards, and technologies such as platforms and the internet of things (IoT) that intermediate data and large social and technological systems and infrastructures and how these structure, automate, and govern so much of daily life. She is particularly fascinated by and applies systems thinking to map out the processes by which deep technological infrastructures and vast machines operate. Her scholarship is critical and engaged, and as a data and technological citizen, she works with the makers, governors, and stakeholders of these data, processes, and infrastructures, not only to better understand them but also to ensure that these do not cause harm, and more so that they are governed in an ethical, accountable, and transparent way so as to balance economic development, social progress, and environmental responsibility.

Part III Innovation and Intersections

Measuring Impact and Communicating Success

Chapter 35

Social Media and Charities in Canada

Margaret Herriman
Max Bell Foundation

The internet is an inextricable part of Canadian life. In 2019, 73% of Canadians spent three to four hours online each day (CIRA, 2019). Almost all Canadians have internet access in their homes, and most say they would not move to a house that does not have access to high-speed broadband (CIRA, 2019). Even when watching TV, one-quarter of Canadians are multitasking, using an internet-connected device (Ryan, 2018).

Social media is also a vital part of that online experience and has an increasing centrality in the lives of many Canadians: 77% of Canadians have a Facebook account, and 62% look at social media at least once a day (CIRA, 2019). Facebook is the third most visited site in Canada, after Google and YouTube (Vertix Media, 2019). Younger Canadians are socializing in person less and spending more time communicating on their devices (Thomson, 2018). Because people are spending more and more time on social media, they are getting more of their news and information there and less from traditional sources such as newspapers or television news programs.

It is no longer an option for charities and nonprofits to forgo an online presence. In 2019, 99% of Canadian nonprofits had a website, 94% had a Facebook page, and 89% had a Twitter account (Nonprofit Tech for Good, 2019). Charities know that this is an important way to reach people and that savvy social media participation can help them mobilize and engage with stakeholders. They use social media to create brand awareness, fundraise, share news about the organization and cause, and recruit volunteers (Nonprofit Tech for Good, 2019). This chapter outlines the existing social media landscape, explains how and why charities are using social media, and offers a risk analysis of that use.

The Social Media Landscape in Canada

In Canada, people regularly use more than one social media platform. Facebook is the most popular and is the platform with the most even spread of demographics. It allows people – as individuals or organizations – to create a profile page where they can post text, photos, and links. Only a small amount of the information on a Facebook profile page is static. The most significant part of Facebook is the newsfeed, where users see posts from the users they are connected with (either through becoming friends or liking) and can comment on these posts. This newsfeed is constantly updating and includes advertisements. Users can also create and join groups and can make their posts visible to more or fewer viewers, though the default is to make information public. Depending on profile settings, some of this information can be seen without creating an account.

Twitter is the second most popular platform. Users create a simple profile and then post "tweets," text limited to 280 characters, as well as links and photos, and retweet other users' content or reply to other users' tweets. Twitter also has a newsfeed that constantly refreshes. Users follow other users or hashtags. By marking a post with a hashtag, users participate in a conversation. For example, by marking posts with #funny or #blackhistorymonth, users can spread information, participate in a conversation, and attract users to their content. Of all social media platforms, Twitter is the most focused on timeliness. Tweets are short, quippy, and of the moment. Much of the content on Twitter can be viewed without joining the site, but users can tweet or follow others only if they have a username.

YouTube relies on videos. Users range from people uploading video from their cellphones to record labels uploading music videos to major networks uploading content from their broadcast shows. Anyone can view YouTube videos without an account, although an account is needed to upload or comment on videos.

LinkedIn is a networking site used almost exclusively for professional contacts. A user's profile page is their CV and remains static. People connect with one another and post content usually related to their job or industry. Job searchers and recruiters use LinkedIn to find one another. Generally, only people active in the professional world have a LinkedIn account, and most people do not post information about their personal lives.

Instagram and Snapchat are also popular social media platforms, although they tend to be used more frequently by younger generations. Both are photo-based. Instagram users post photos and videos with captions and hashtags and use filters to manipulate the look of their photos. These posts go into a constantly refreshing feed that also includes advertisements. Instagram makes it easy to cross-post with Facebook. Snapchat users send each other photo and video messages and create Snapchat stories. Most Snapchat photos and videos disappear after viewing.

Pinterest is like an online scrapbook that allows people to collect links and photos. People make Pinterest boards about crafting, cooking, clothing, interior decorating, and motivational images and quotes.

The above is a very brief, simple introduction to social media and is in no way exhaustive or authoritative. There are other forms of social media not discussed here, such as Tumblr or TikTok, and platforms evolve over time. As Facebook has grown more popular with older generations, for example, younger users have migrated to sites like Instagram and Snapchat. Tumblr, a site that allowed users to blog and re-blog content, rose and fell in popularity as trends changed.

For charities, Facebook and Twitter are likely the most important social media platforms, although this will almost certainly change over the coming years. Some charities, for example, have begun using mobile messaging apps like WhatsApp or Facebook Messenger to communicate with stakeholders (Nonprofit Tech for Good, 2019). Charities interested in connecting primarily with youth may have more success on Instagram. All will need to remain nimble and responsive to the needs and preferences of their stakeholders.

The Potential and Limitations of Social Media

Social media shapes the way we see and understand the world. As an accessible public platform, there is a sense that voices have been democratized in these spaces. Grassroots movements focused on social justice have the potential to gain a far greater reach and grow more quickly than ever before. Although both movements were initiated in the United States, the #blacklivesmatter and #metoo grassroots movements quickly spread to Canada and elsewhere. In both cases, activism on social media, especially Facebook and Twitter, allowed people across the globe to share their stories and support. Social media allowed people in many locations to simultaneously feel mobilized and engaged about the same issue (Hou & Lampe, 2018).

Social media has also facilitated the creation of communities of people who share the same political or value systems. Because the algorithms allow users to choose what accounts to follow, it is easy for users to follow and see sources of information that conform to the views they already hold. Social media can facilitate an echo-chamber effect, with users seeing viewpoints that allow them to become more and more entrenched in their own perspectives. Most online discussion around climate change, for example, is conducted between people that already share the same views, and fewer people seek out forums and conversations where their views will be challenged (Williams, McMurray, Kurz, & Lambert, 2015).

Though users have the sense, especially on Facebook, that what they are seeing is a rolling feed of sources they have liked or selected, social media algorithms are incredibly complex. Behind the scenes, Facebook examines all the potential posts that could appear in a user's feed and posts them in the order most likely to produce a positive reaction. This can amplify the echo-chamber effect, ensuring that posters see even more of the news sources and opinions that they already agree with and reducing the number of things they might potentially disagree with.

Social media is rife with people attempting to influence and inform as many people as they can connect with: every user has the ability to share a link to a news or opinion article with their own comments. As traditional news media disappear, news outlets are increasingly designed for consumption online and are primarily promulgated through social media. Many of these sites are niche-specific, and rather than attempting to serve an entire place-based community, they focus on issues, often from a particular perspective, and many are political in nature, with a pronounced right or left bent.

Not all posters on social media are who they appear to be. While social media has facilitated the growth of organic grassroots movements, it has also been host to manufactured movements. "Astroturfing" occurs when organizations give the impression of being grassroots movements by creating multiple fake accounts that make it appear as though many individuals are posting content related to a specific issue. In 2019, Facebook took down nearly two billion fake accounts per quarter, rising to 1.7 billion in the first quarter of 2020 (Deep, 2020; Hao, 2020).

In addition, the line between news and entertainment is becoming increasingly blurred. The site BuzzFeed, founded in 2006, has tracked and aggregated amusing viral content, much of which was shared on Facebook. By 2018, the site had added a robust news section, including original investigative reporting, and won a National Magazine Award and a George Polk Award and was shortlisted for the Pulitzer Prize and the Michael Kelly Award. Many of these articles were also shared on Facebook, alongside quizzes from the site that might determine which Harry Potter character you are most like or how mature your Starbucks order makes you.

Social media has also produced a variety of new careers. Social media influencers, many of whom use Instagram and are increasingly moving to Facebook, are people who market lifestyle products to their followers. Influencers form relationships with brands and companies – some with many brands – creating photos, videos, and vignettes that highlight the appeal of these products. They gain their own followers and market to them by suggesting that the influencers use these brands themselves, downplaying their relationship with the company. Much of the content on social media exists, either explicitly or implicitly, to sway users to buy a product or adopt a certain viewpoint.

Privacy is not a foregone conclusion on social media. There have been a number of publicized hacks and data leaks, as well as attempts to exploit or manipulate algorithms and feeds. In 2018, for example, a whistleblower revealed that the company Cambridge Analytica had harvested millions of American Facebook profiles in a data breach and used the information to build a program that allowed them to predict and influence American choices at the ballot box in the 2016 presidential election (Cadwalladr & Campbell, 2018).

Social media users also have their data used by social media companies and their funders. All popular social media is free to join, and so the business model of these companies is based on advertising revenue. In order to appeal to advertisers, platforms allow companies to target their messaging to specific demographics. These demographics are not just age, gender, and location; they are also based on users' interests and content they have reacted positively to in the past. Facebook especially has been criticized for selling and sharing data about users and for collecting information in underhanded ways, like accessing the microphones in users' phones and using voice-recognition software to collect information for advertisers.

Despite the rocky landscape of social media, it is still a central part of many Canadians' lives, and it is easy to understand why. Where else can a person see photos of their friend's vacation, smile at a funny cat meme, and catch up on provincial politics, all by scrolling down the same page? Canadian charities are doing their best to have their posts appear regularly between beach photos and news posts.

Social Media and Charities

It is undeniable that many charities and NGOs are doing their work at least partly online: 77% of Canadian charities agree that social media appeals are an effective way to conduct online fundraising campaigns, and online giving increased by 17% in 2017 from the previous year (Nonprofit Tech for Good, 2019; CanadaHelps, 2020). Charitable giving using smartphones and tablets is rising particularly rapidly, with an increase of 8% in 2019 alone (CanadaHelps, 2020). Charities also use social media to deepen relationships with stakeholders, build awareness of their brand, share news, attract event attendees, steward existing donors, and recruit volunteers. Social media helps keep charities top of mind for their followers and stakeholders.

Charities are eager to reap the potential benefits of social media. Searching for "charities and social media" on the internet returns pages of guides suggesting ways charities can use social media to their advantage, and nonprofit-sector blog posts are filled with tips and tricks and top mistakes to avoid. In addition, organizations like CanadaHelps have thorough guides on how charities can adopt and optimize social media to stay relevant to donors and community members.

In part, social media appeals to charities because it is a way to build community with a broad group of stakeholders. In many cases, social media levels the playing field by giving organizations equal opportunities to be heard. By making it possible for people to share information about a cause or group, social media allows individual users to feel a sense of solidarity with one another (Morgan, 2013). While the final goal may be to mobilize individual action, such as having people become regular donors or volunteers, the medium-term goals are often to build trust and relationships and make followers feel as though they are part of a larger community. These relationships can be built by posting content to many followers and then engaging with those followers as they comment or retweet or share the original post. To be truly effective at social media, charities must know who their audiences are and what kind of communications they respond best to (Morgan, 2013).

Social media also enables organizations to leverage the existing connections of their followers. If charities effectively identify their target audiences and the communication practices that appeal to them, they can hope to gain sustained attention. This promotion takes the form of sharing news, updates, and fundraising but also provides opportunities for organic conversation and connection. By creating messages that followers "like" and share, content becomes visible to the followers of those followers as well, meaning exponential growth is theoretically possible (Younan, 2017). Much of this work comes down to successful brand management, ensuring that organizations become credible messengers and partners (Kylander & Stone, 2012).

This leveraging, however, is not without risk. Social media presents a range of potential, conquerable risks for charities.

Successful social media engagement is a time-consuming endeavour. To use social media most effectively, organizations need to develop strategic plans for what they want to achieve. These plans include which platforms they will create accounts for, what their key performance indicators will be, and what products and methods they will use to track these indicators. Organizations will also need to decide on a posting schedule, how they will create their content, and how much staff time they are willing to devote to social media. CanadaHelps suggests that organizations should expect to spend two to five hours a week executing social media and five to six hours a month creating social media content per platform. Because social media is a visual platform, posts that contain eye-catching visuals or appealing multimedia tend to be the most successful. At minimum, charities need to spend time searching out images or videos, or they need to create their own – which requires an investment of time and money.

Many charities choose to use some kind of paid posting in addition to free posts. Paid accounts allow users to post automated content, place ads that show up in Facebook feeds and sidebars, and boost older popular posts back to the top of followers' newsfeeds, thus ensuring that posts arrive at a steady rate. Generally, organizations that post interactive content on a regular schedule are the most successful in gaining and retaining followers and converting those followers into donors.

Large organizations may already be well positioned to do this work. They may already be creating blogs and newsletters and have the capacity to direct organizational resources into social media. For small organizations, this investment of time and money may be prohibitive (Hou & Lampe, 2018). In addition, these investments may not pay the kinds of dividends that charities are expecting or hoping for. Despite the wealth of guides available and the services that track every click and mention, there are no silver bullets that ensure that a particular social media strategy will be successful.

One of the perils of social media for charities is "slacktivism." This refers to the practice of individuals sharing and liking content related to a particular cause but taking no action beyond that. Social media users, especially those interested in social justice or environmentalism, can be bombarded with information, statistics, and news about different causes by a slew of awareness campaigns (Christiano & Neimand, 2017). Getting through to a call-to-action can be a difficult bar to clear. It can be easy, and encouraging, for charities to get likes on Facebook and retweets, but transforming a like into donations or a signature on a petition can be difficult (Hou & Lampe, 2018). To overcome slacktivism, charities must also issue calls-to-action, with small and achievable steps, to a narrow target audience (Christiano & Neimand, 2017).

Social media can also pose potential legal risks for Canadian charities. Though they are not insurmountable, charities should familiarize themselves and their staff and volunteers with the parameters they need to remain within.

When undertaking an audit of a charity, the Canada Revenue Agency (CRA) will often examine that charity's social media posts to ensure that they are in compliance. A charity's social media presence must exist to further the stated purpose of the charity, so all posts must conform to that guideline. In addition, the charity may not use its social media to provide a private benefit to a business or individual. When posting about businesses connected with the organization, for example, charities must be careful not to provide anything that might look like free advertising. Finally, charities must be careful to avoid posting anything that could be construed as prohibited partisan political activities. Charities cannot use their social media to promote a particular candidate, for example (Miller Thomson LLP, 2018).

Charities also need to ensure that they are complying with privacy legislation. Any personal information posted to social media must be backed up by appropriate consents. Posting photos also carries some risk. If a charity wishes to post photos of an event, it should have consent from the attendees. Posting photos of minors can be especially risky because they are unable to consent on their own, and Canadian courts have not always upheld rulings that parental consent is sufficient. Posting personal content and photos is possible, but before doing so, charities and their employees and volunteers should have a good understanding of the risks, constraints, and need for comprehensive consent (Miller Thomson LLP, 2018).

A final risk for charities is that social media can be accessed by anyone and everyone, including harassers and trolls. To reach a broad audience, charities tend to make their messaging and accounts as public as possible. An unintended consequence of this is that people are able to make harassing, derogatory, or threatening comments on posts. Some of this harassment occurs because the commenter disagrees with the work or purpose of the charity (Christiano & Neimand, 2017). Charities have the ability to delete comments on their posts and block serial harassers, but this is a time-consuming, unpleasant activity that many charities do not factor in to their social media strategies.

There is, of course, a risk to not participating in social media. Given the amount of time that Canadians spend on social media, not engaging with them there constitutes a potentially lost opportunity. As early as 2013, the *Stanford Social Innovation Review* reported that social media had changed the landscape so dramatically that traditional methods of donor engagement were no longer effective (Dixon & Keyes, 2013). Though not every charity has a successful viral video or fundraising campaign that nets them tens of thousands of dollars in a day, many charities are quietly, effectively, and efficiently engaging with supporters using multiple platforms and integrating their online and offline communications.

Conclusion

Canadians are spending more of their time online, and much of that time on social media. Charities are working to be a part of the Canadian social media landscape so that they can effectively spread the message about their purpose and activities and build an online community. Social media poses risks for charities, but despite those risks many charities are effectively using multiple platforms to reach and connect with their stakeholders. The landscape is constantly evolving, requiring continual improvement and vigilance.

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Biography

Margaret Herriman, Max Bell Foundation

Before joining Max Bell Foundation in 2016, Margaret Herriman worked in communications, fund development, and program delivery at several Calgary nonprofits, including YMCA Calgary, the University of Calgary, and Glenbow Ranch Park Foundation. She earned a Bachelor of Journalism from the University of King's College and a Master of Arts in history from the University of Calgary.

Measuring Impact and Communicating Success

Chapter 36

The Overhead Myth: The Limitation of Using Overheads as a Measure of Charity Performance

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Very few subjects in philanthropy are as contentious as charity “overheads.” In simple terms, charity overhead can be defined as “the amount of total receipts spent on administration and fundraising, in contrast to the amount spent delivering services” (Hager, 2001). Donors’ scrutiny of charity overhead stems from a desire to maximize the amount of their donations directed to the cause, rather than spent to cover operating or fundraising costs. Charities, in contrast, see such costs as necessary expenses – to generate future income, pay qualified staff, invest in technology, and ensure the future sustainability of their organizations.

Low charity overheads are often interpreted as a proxy for effectiveness and efficiency, and those charities with lower overhead rates are perceived as being better positioned to achieve their missions. As Caviola (2014: 304) explains, “The overhead ratio might appear important to many because it can seem to measure the efficiency of the organization: how much of my money will actually reach the destination?” Government regulators have adopted the notion of capping a charitable organization’s overhead as a means of promoting charity effectiveness. As an example, in its fundraising guidance for charities, the Canada Revenue Agency (CRA) states that, while recognizing the necessity of incurring fundraising expenses, it expects charities to conduct fundraising within acceptable legal parameters. Those parameters include fundraising costs no higher than 35% of total revenues, and anything above this amount may trigger further examination (CRA, 2012).

The Canadian regulatory regime for charitable organizations is not exceptional; other jurisdictions have also imposed regulations that require charities to disclose financial information, including administrative and related costs (Phillips, 2013). And while regulating overhead may at first seem to make sense, it is important in judging the merits of such restrictions to understand the intent behind them. As Oonagh Breen (2016: 230) points out, "In designing any regulatory regime, the first concern must be the nature of the evil the regime seeks to redress." The intent behind most government regulation is to deter charities from the evils of ineffectiveness by ensuring that a sufficient percentage of donated dollars reaches the cause, with the expectation that this will have a positive effect on the charity's overall performance. However, empirical evidence suggests this focus on overhead ratios is not necessarily beneficial.

This chapter examines the effects of restrictions on overheads and fundraising costs, both formal and informal, as documented in the research literature. By "formal restrictions" I mean the regulations imposed by government bodies; "informal restrictions" refer to those created via the perceptions and preferences of donors and the general public.

Based on evidence that overhead regulations deter sufficient investment in infrastructure and result in financial misreporting by charities, I argue that the excessive focus on and the formal or informal capping of overheads has negative and damaging consequences for charities. The relevance of overhead rates as meaningful measures of charity effectiveness is questioned, given their inability to account for fundraising and subsector differences. Alternative methods of improving charities' performance are explored – ones that move away from restrictions on overhead but that nonetheless provide donors with relevant information to decide which organizations are worthy of their financial support.

Underinvestment in Critical Infrastructure

Various studies have shown that, in an effort to keep overhead ratios low and attract the interest of donors, charities underinvest in the critical infrastructure they require to be as effective as possible. Such infrastructure includes technology systems, staff training and development, competitive compensation, management processes to track and evaluate performance, and other essential operations. A persistent underinvestment in infrastructure undercuts charities' ability to best achieve their missions.

This destabilization has been coined the "nonprofit starvation cycle" (Hager, Pollock, Wing, & Rooney, 2004; Gregory & Howard, 2009; Lecy & Searing, 2015). In popularizing the concept, Gregory and Howard (2009) identify a three-step cycle of chronic underfunding that undermines charities' overall effectiveness. The first step begins with unrealistic expectations from funders (i.e. government, foundations, and individual donors) regarding the actual costs associated with running a productive nonprofit. These unrealistic expectations prompt the second step: nonprofits bow to the demands of their funders so as to secure much-needed financial support. In the third step, nonprofits lower their overhead ratios by spending too little on vital infrastructure while they underreport fundraising and administrative expenses.

There is strong evidence of systematic nonprofit starvation over time. For example, Gregory and Howard (2009) found that 56% of executive directors (EDs) reported plans to reduce their organizations' overhead expenses, even though it meant jeopardizing their ability to achieve their charitable missions. Nonprofits concerned about keeping their overhead levels low also hired unqualified staff because they were able to offer only below-market wages. Key positions were filled with junior people who lacked relevant training; once they acquired this training, they would often leave the charity for better-paying employment (Nonprofit Overhead Cost Project, 2004a). The Nonprofit Overhead Cost Project, which included a survey of more than 1,500 charities and a detailed review of tens of thousands of audited financial statements and American tax data, reports many instances of EDs preparing their organizations' financial statements themselves, even though they lacked the necessary skill and qualifications to do so, resulting in errors and inaccuracies (Wing et al., 2005: 3). Adequate support for technology infrastructure also suffers; one of the starkest examples comes from a suicide prevention hotline that could not update its phone system, leaving suicidal callers at risk of getting busy signals (Wing et al., 2005).

Funders often play an explicit role in dampening spending on infrastructure, particularly when they don't allow the recipient charities to designate sufficient funds to cover the costs associated with administering the grant; meanwhile, downward pressures on overhead force charities to pay uncompetitive salaries, resulting in a lack of leadership and expertise to deliver on their missions (Gregory & Howard, 2009: 51).

The decline in overhead spending is a long-term trend, as shown by Lecy and Searing in a study of US nonprofits from 1985 to 2007. The average reported overheads fell by almost three percentage points over this period – from 20.9% to 18.3%. The decline held across all subsectors and all sizes of organizations except the very small and very large. The deep cuts came from administrative expenses (wages of non-executive staff and professional fees), which were offset by an increase in fundraising expenses. This long-term trend has been confirmed in a study of nonprofits in Germany (Schubert & Boenigk, 2019), although there the decline was attributed to decreased fundraising and material expenditures rather than staff wages and was greater for nonprofits without government funding, which face greater pressures from a more competitive environment. Schubert and Boenigk (2019) found that declining overheads are more significant for large organizations, which they attribute to increased professionalization that makes large organizations more susceptible to external expectations, and that they skimp on material-related expenses as staff expenses rise.

In sum, research demonstrates that demands for low overhead result in charities sacrificing vital infrastructure investment in technology, staff development, and other critical operations even though doing so negatively affects their missions. If the original goal behind restricting overhead is to increase the impact of charities on their causes by directing as much of each donation as possible toward the program, a very different result is being achieved. Most disturbing is the fact that overhead restrictions, whether imposed by government regulation or the public's normative values, have had not just a negative effect – they have perpetuated a starvation cycle where nonprofits feel pressure to reduce overhead rates to the point of limiting their ability to deliver on their charitable mission.

Misreporting of Overhead

Critics of formal regulations on overhead argue that much of the reporting to government agencies by registered charities is inaccurate and inconsistent – although mainly unintentionally. Misrepresentation of overhead expenses makes government regulation irrelevant because inaccurate information eliminates any usefulness for donors in deciding where to best direct their charitable gifts. It also nullifies governments' ability to regulate effectively. Evidence would suggest that these critics are right in their assertions.

In assessing the financial reporting provided by charities, significant errors, both quantitative and qualitative, are found. The evidence demonstrates that many well-meaning Canadian charities have been both erratic and erroneous in their reporting of fundraising costs, often significantly underreporting their expenses (Ayer, Hall, & Vodarek, 2009; Phillips, 2013). Quantitative errors are frequently the result of a lack of financial acumen and expertise within the charity, coupled with multiple reporting requirements with no standard definition for reporting certain costs (Phillips, 2013). Other research has affirmed that errors in reporting are not the result of any intentional desire to misreport financial data, but as Wing and colleagues (2005) explain, many of these nonprofits do not have the necessary accounting or financial skills to effectively report their overhead costs. The Nonprofit Overhead Cost Project documented numerous quantitative inaccuracies in the data it analyzed from US-based charities' 990 forms (which most tax-exempt organizations are required to file with the IRS). It found that 37% of nonprofits with at least $50,000 in revenue reported zero fundraising costs, while 13% of them claimed zero management costs, suggesting widespread underreporting in administrative and fundraising costs, given the high likelihood that these statistics are inaccurate (Nonprofit Overhead Cost Project, 2004b). In addition to quantitative errors, qualitative errors were often the result of improper allocation of expenses. Salaries often represent the largest single cost, but many nonprofits did not report or attribute salary cost, versus overhead expenses, accurately in their financial statements, leading to imprecise reporting that skewed overhead results (Nonprofit Overhead Cost Project, 2004c). Reports from the UK suggest similar challenges. Sargeant (2009) argues that the latitude given to UK charities in how they report on overhead and fundraising costs in their Charity Commission filings leaves so much room for interpretation that any resulting data is neither usable nor relevant. The inaccuracy of the reporting is observed in Sargeant's survey of fundraising directors at the UK's 500 top charities, whereby 5% of them claim zero overhead expenses (2009: 338), clearly an impossibility.

While misreporting of overhead costs is often the result of a lack of accounting skills or inconsistent reporting standards, research also suggests that charities underreport their overhead expenses because of funders' unrealistic demands. There is evidence of charities underreporting fundraising and administrative expenses to perpetuate the appearance of falsely low costs so as to access funding or be more attractive in competitive funding scenarios (Gregory & Howard, 2009). Some charitable organizations were found to misrepresent overhead costs by claiming that 100% of donations were directed to the cause, but in the small print they reveal that the organization uses contributions from "founding supporters" to cover administration and fundraising costs (Gregory & Howard, 2009: 51).

The widespread inaccuracies and inconsistencies in overhead reporting reveal the limitations of those government policies that seek to regulate administrative and fundraising expenses.

Consistent patterns of overhead misreporting from Canada, the US, and the UK suggest that this trend is not confined to one nation's regulations, but rather point to a fundamental flaw with overhead regulation in general. If most charitable organizations lack the basic capacity to even report on whether they abided by the regulations, the regulations in effect become powerless in their ability to enforce compliance. If overhead restrictions perpetuate misreporting and underreporting because of pressures from funders and government, then policies that cap costs become immaterial, given that the guidelines do little to promote adherence.

Overhead Ratios Don't Allow Us to Compare Charities

Donors often use overhead (and specifically fundraising) ratios as a means of comparing different charities' efficiency and effectiveness as they assess how to best direct their philanthropic dollars. The premise for using ratios to evaluate charities "rests on the idea that, all things being equal, the donor would prefer that as much of his or her donation as possible be devoted to program spending, and not diverted to administrative or fundraising spending" (Tinkelman, 2006: 441). While donors may believe that they are making the best choice in donating their funds to the charity with the lower overhead ratio, studies have shown that such ratios are irrelevant in determining whether one is more efficient (the level of inputs used to produce outputs) or effective (achieving the intended results from the outputs).

A fundamental problem is that overhead measures are calculated as ratios – of administrative and fundraising to all program expenditures. This means that the ratio can be manipulated in several ways, making it a poor measure of actual efficiency. One way is to increase the denominator, which would decrease the ratio, for example by increasing program expenditures, or what are reported as program expenditures (Coupet & Berrett, 2019). Surely, the intent of the measure is not to create incentives to increase program expenses regardless of the impact of such spending; this would merely incentivize inefficiency. Indeed, Coupet and Berrett (2019) find that overhead ratios actually have a negative correlation with other standard measures of efficiency. Further, the ability to directly compare charities is compromised by the fact that not all charities use standardized accounting and reporting systems, making the data inconsistent (Van Iwaarden, 2009). The measure also ignores inputs other than financial and ignores any measurement of outputs or actual impacts, limiting its value as a test of effectiveness.

When we consider different fundraising strategies that charities may use to promote revenue and donor growth, additional problems emerge. These strategies may put upward pressure on overhead ratios by increasing the numerator but say very little as to whether a charity is more or less effective. One of the best illustrations of this is when a charity invests in fundraising to produce the highest net return in order to direct as much money as possible to the cause. Steinberg (1994: 14) illustrates this point with two scenarios of differing fundraising strategies:

> The first budget of $10,000 will produce $50,000 in donations and provide a 500 percent ratio return ($40,000 actual net return). The second budget of $100,000 will produce $200,000, a 200 percent ratio return ($100,000 actual net return). If a charity wished to maximize the rate of return on its fundraising investment, it would

> choose the first budget: if it cared about maximizing the resources for providing charitable services, it would choose the second.

The first budget has an overhead rate of 20% and produces net “profits” of $40,000 to the cause; the second has an overhead rate of 50% and directs net profits of $100,000 to the cause. Charities with lower overhead rates do not necessarily put more funds toward their causes. Rather, it may be the contrary. Steinberg’s scenarios suggest lower fundraising overhead comes at a potential cost – the cost being fewer dollars in absolute terms directed to the charity’s mission. In fact, many nonprofits do not devote enough resources to fundraising at all levels to maximize revenues (Okten & Weisbrod, 2000: 271). Hence, direct comparison between charities with respect to their fundraising and overhead ratios tells us little about how many real donor-dollars are going to the cause, despite the public perception to the contrary.

A related issue is that overhead ratios are static – a snapshot at a fixed time. The usefulness of overhead as a means of comparing charities is challenged by how fluctuations in overhead and fundraising costs affect donors’ likelihood to increase or decrease their donations. Bowman (2006) concludes that overhead ratios are meaningless for comparing between charitable organizations. He did, nevertheless, find that changes in overhead are useful when analyzed at the individual charity level, but only longitudinally, over a period of time.

Donor acquisition often has high short-term costs but long-term payoffs, and when acquiring new donors, many charities will justify the upfront investment by using a long-term-donor-value metric. That is, they judge the initial acquisition investment against the value of the donor over time. For instance, it may cost $500 to acquire a donor in the first year, but the charity can be guaranteed a total of $2,000 from that donor over their lifetime with the organization. As Sargeant (2001) points out, in a long-term-donor model, acquisition costs are generally high and not necessarily offset by donation revenue in the short-term; rather, reasonable returns are generated over time, driven by an ongoing financial relationship between the donor and the charity. In long-term-donor-value models, fundraising overhead can be exceptionally high in a year where acquisition activity is abundant but much lower in years when a charity depends on the ongoing revenue of previously acquired donors. Such fluctuations in donor-acquisition costs and associated long-term revenue are not captured in overhead measurement, given that they are unable to account for future multiyear returns. As such, fundraising models that take longer-term investment approaches challenge the usefulness of comparing charities’ overhead ratios, given that these ratios cannot account for what is one of the underpinnings of good fundraising: taking a long-term approach to developing a financial relationship with donors.

Part of the challenge in using overhead as a proxy for effectiveness is that the public knows very little about the need for fundraising. Fundraising is what fuels most charities’ ability to deliver on their missions, but many donors do not understand or respect this (Impact Coalition, 2012: 2). Upward of 85% of donations to all charitable organizations are the result of a fundraising solicitation (Bekkers, 2011: 931), so when charities reduce their investments in fundraising to keep overheads low, the direct result is fewer dollars directed toward their missions and less security in ensuring their long-term financial viability. The public may not realize how central fundraising is to the health and sustainability of charitable organizations or that static overhead ratios reveal little about the complexity of fundraising strategies over time. The reality is that short-term investments for long-term revenue gain can drive up costs – and overhead ratios with them.

Subsector Influences Overhead

The approximately 86,000 charities in Canada represent a wide range of causes and are varied in their missions and operations. Yet overhead measures attempt to apply a universal metric without accounting for the distinctiveness of different types of charitable organizations and how these differences may affect costs.

The nature of the charitable mission may affect overhead levels. In a study of the top 500 charities in the UK, Sargeant (2009) finds a direct relationship between a charity's overhead and the nature of the cause it supports. For instance, education charities have lower overhead ratios when compared to other subsectors, which is consistent with earlier studies that suggest overhead ratios vary by subsector (Sargeant, 2009: 338). Because it could be easier to raise funds for commonplace health causes like cancer or diabetes versus a cause like mental illness (which continues to suffer from stigmatization), overhead levels between such health causes can vary dramatically. Cancer and diabetes charities could have lower overheads, as donors give readily to these causes, whereas a mental illness charity has a high overhead rate because of the stigma and donors' reluctance to support the cause. Hence, the variation in overhead could have little to do with the effectiveness of the charities and much to do with the nature of the charitable cause itself.

In addition to systematic variations in efficiencies of US nonprofits by subsector, Hager (2001) reports these vary by organizational size and age. In particular, Hager reports that smaller organizations were the least efficient in their fundraising costs, likely because of their inability to take advantage of economies of scale, and that overhead costs increase with organizational age. A study by Abzug (2013) comparing five nonprofit subsectors found significant variations in financial and overhead reporting between subsectors, indicating that meaningful comparisons should be done within subsectors.

With findings that consistently reveal that overhead levels fluctuate according to a charity's mission, size, and age, a one-size-fits-all approach to discerning where donors should direct their dollars and the value of formal or informal regulation of overheads seems inappropriate.

Alternatives to Overhead Ratios

While the assumption behind the focus on overhead ratios is that lower overheads indicate more efficient and effective charities, the evidence indicates that this assertion is incorrect. Overhead ratios are flawed measures for donors who want to maximize the impact of their donations and do not facilitate valid comparisons across charities, and regulation of overhead restrictions is not successful, raising the question as to what alternatives exist to effectively promote and assess charity efficacy. Four options merit consideration.

The first is to encourage donors, foundations, governments, and the public to adjust their assumptions and expectations about overhead ratios. We need to ease, or eliminate, unrealistic pressures on charities to keep their overhead rates as low as possible and instead encourage or require organizations to be transparent about the real costs required to operate a successful nonprofit. Rather than starving charities with very low permissible overheads, funders, including foundations and governments, would agree to pay a fair level of overhead costs. In addition, sector advocates argue that a public-education initiative is required to alert current and prospective donors to the limitations of overhead ratios as a reliable means of judging charity effectiveness (Pallotta, 2012; Impact Coalition, 2013). Currently, only 5% of people strongly agree that charities are justified in spending a portion of received donations on fundraising to guarantee future income (Impact Coalition, 2013: 4). Interpreted another way, this may suggest that 95% of people would agree that charities should invest no funds in fundraising. A more realistic understanding of what it takes to run a nonprofit is a starting point for ending the starvation cycle. Given the importance of public-sector funding for Canadian charities, the government could play a catalytic role if it were to ease or eliminate current overhead restrictions, thereby sending a powerful message to the general public about the need to find alternative means by which to judge charities' efficacy.

The second option promotes better measurement of the impact of charities on their missions. "While [overhead] can tell us a lot about a charity's inputs and outputs, it does not tell us much about what the charity's impact is" (Impact Coalition, 2012: 16). In the absence of meaningful information on how donor dollars are translated into impact, overhead is often used as a default indicator. Hence, the best way to modify the focus on overhead is to assist charities in reporting on their outcomes and impacts, or mandate that they must. Interestingly, this recommendation could also have a positive impact on many charities' bottom-line incomes, as research has demonstrated that when donors are presented with information about both overheads and outcomes, donations are higher to those charities perceived as more effective in achieving their outcomes. In an experimental study conducted by Caviola (2014), participants were presented with two fictitious charities: Charity A had an overhead rate of 60% and saved five lives, while Charity B had an overhead of 5% and saved two lives. When the charities were considered individually, participants said they would prefer to donate to Charity B, likely because of its low overhead rate. However, when both charities were presented simultaneously, significantly more participants were willing to donate to Charity A over B, suggesting that impact (in this case lives saved) was more important to donors than the overhead rates (Caviola, 2014: 306). This suggests that the use of overhead ratios does not need to be completely eliminated; rather, they could provide complementary, more contextualized information for donors and for regulators. The challenge, of course, is to develop meaningful indicators of impact across diverse charities to facilitate meaningful comparisons. The measures also require a degree of parsimony – readily understood – to enable ease of use.

A third option is a somewhat indirect means of addressing the problematic nature of overhead regulations. It encourages the charitable sector to develop collective capacity to address government restrictions on administrative costs, particularly given the importance of governments in financing and regulating charities. Governments' role in financing the charitable sector translates into significant power, which could dissuade many individual charities from speaking out against regulations or against contract and contribution requirements for fear of losing their funding. Dan Pallotta (2012) goes further to argue that charities need a legal-defence fund to protect themselves against unjust government policies that inadvertently and negatively impact them, including fundraising and overhead restrictions. While the idea of a stronger voice for the charitable sector with government policy-makers has value, and while it may address the formal regulations placed on charity overheads, it does not alter the informal regulations placed on charities through public pressure and the demands of donors to keep costs as low as possible.

A fourth route is strengthening self-regulation of the sector as a means of improving organizational practices and enhancing public trust that charities are well run (Phillips, 2012; 2013). In a survey of US donors, 72% say they would have greater trust in a charity's fundraising if the charity was accountable to an independent regulatory body (Impact Coalition, 2012: 7). With the launch of Imagine Canada's Standards Program in 2012, Canada has built one of the most rigorous voluntary accreditation systems for charities and nonprofits of any country, aimed at improving credibility and donor confidence. The central imperatives are to ensure that boards of directors exercise their oversight responsibilities and promote transparency. Administrative and fundraising costs are addressed through the requirements that no more is to be spent on administration and fundraising than is required for effective management and resource development and that all costs related to fundraising are accurately disclosed. The Standards Program also puts an onus on boards of directors to approve budgets and ensure there are processes in place to monitor organizations' performances in relation to annual budgets; review actual revenues and expenses against budgets at least twice a year; and review the cost-effectiveness of fundraising activities. To date, about 250 charities and nonprofits – large and small, across a number of subsectors – have been accredited.

While government regulation plays an important role in fraud prevention and basic financial transparency to ensure that charitable resources are spent on charitable purposes, it does little to advance organizations' learning and self-improvement. Thus, self-regulation is a valuable complement that provides a second tier focused on good governance and operational controls; working together, governments and nonprofits can form a more productive system of co-regulation (Phillips, 2012: 816). To address both the formal restrictions imposed by legal and regulatory means and the informal regulations imposed by the public, a likely combination of all four alternatives will be required.

Conclusion

More than ever, in an uncertain and rapidly changing environment, charities and nonprofits need robust infrastructure: to make productive use of technology, to be adaptive in resource development, to conduct R&D for innovation, and to be competitive in attracting talent. The evidence demonstrates the negative consequences of focusing excessively on overhead ratios and shows how doing so contributes to a starvation cycle that suspends critical infrastructure and growth investments that could improve charities' ability to deliver on their missions. Instead, charities bow to demands to keep costs as low as possible. This creates an incentive to manipulate ratios or under- or misreport financials, making it difficult for donors to distinguish impactful organizations from merely frugal ones. Because of their focus on a narrow annual cycle, overhead ratios provide limited information about fundraising investments that may increase costs and overhead ratios in the short-term but improve charity effectiveness over the long-term.

Alternative methods hold promise, particularly options that focus on impact reporting and self- or co-regulation. Impact reporting could provide donors with better information for making decisions as to which charitable organizations to support, while self- or co-regulation could build the confidence of government and the public in the charitable sector's ability to be accountable and transparent. Nevertheless, these options may not be effective alone and must be accompanied by initiatives that seek to change the public discourse on charity overhead ratios, challenging their ability to serve as a proxy for effectiveness. Such initiatives should include an honest and transparent dialogue about the real costs required to run a successful charity and a movement to create and finance a sector voice that can advocate against nonsensical or damaging government regulations with impunity.

Future research on overhead needs to move beyond the popular attempt to define a causal relationship between overhead rates and donations, and instead focus on more meaningful study that helps charities, government, and the public find viable options to replace overhead as the stand-in measurement for effectiveness. One thing is for sure: charity overhead will likely remain an issue of significant discussion and debate with both donors and government in the near future.

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Biography

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Caroline Riseboro is an award-winning nonprofit executive who currently serves as president & CEO at the Foundation of Trillium Health Partners – one of Canada's leading hospitals. During her 20-year career, she has led some of the country's top charitable organizations, including as president & CEO of Plan International Canada, where she transformed the organization from the seventh- to second-largest charity in the country. Caroline's accomplishments have been widely recognized: in 2019, she was named Canada's Most Admired CEO, and in 2017 and 2018, she was recognized as one of Canada's Top 100 Most Powerful Women. Caroline's policy interests include strengthening the ability of charitable organizations to deliver increased impact for Canadian society.