Building Blocks for Strong Communities A Profile of Small and Medium-Sized Organizations in Canada

Technical Report · January 2006

3 authors, including:

David Lasby
Imagine Canada

Building Blocks for Strong Communities

A Profile of Small- and Medium-Sized Organizations in Canada

Glenn Gumulka

Stephen Hay

David Lasby

A research report prepared for Human Resources and Social Development Canada

March 2006

Imagine Canada
425 University Avenue, Suite 900
Toronto, Ontario M5G 1T6
Tel.: (416) 597-2293
Fax: (416) 597-2294
www.imaginecanada.ca

Canadian Policy Research Networks
600-250 Albert Street
Ottawa, Ontario K1P 6M1
Tel.: (613) 567-7500
Fax: (613) 567-7640
www.cprn.org

ISBN 1-55401-236-8

Funding for this paper was provided by the Community Development and Partnerships Directorate of Human Resources and Social Development (HRSD) Canada. The opinions expressed in this paper do not necessarily reflect the views of HRSD.

Preface

This report is one of four produced by Imagine Canada and the Canadian Policy Research Networks (CPRN) as part of a study of small- and medium-sized enterprises (SMEs) and small- and medium-sized community organizations (SMOs) in Canada.

The study compared the structure, development and supports for SMEs and SMOs in Canada and also examined supports available to SMEs and SMOs in other countries. Drawing on learnings from Canadian and international experience, the study made recommendations on how public supports for SMOs in Canada could be improved.

The other three reports produced as part of this study are:

> *Building Blocks for Strong Communities: Key Findings and Recommendations;*
>
> *Building Blocks for Strong Communities: A Profile of Small- and Medium-sized Enterprises in Canada;* and
>
> *Building Blocks for Strong Communities: Results of Key Informant Interviews.*

Acknowledgements

The authors would like to acknowledge a number of people who contributed to this research and to the preparation of this report.

At Imagine Canada, Georgina Steinsky Schwartz, Michael Hall, Robbin Tourangeau and Cathy Barr provided overall direction and ongoing advice throughout this project. Additionally, Cathy Barr reviewed and edited several drafts of this report. M. Easwaramoorthy also reviewed an early draft of this report and provided valuable feedback. The authors would also like to acknowledge Lesley Gotlib Conn, who contributed significantly to the research conducted for the literature review, and Cathy Martens, who assisted with the references.

At the Canadian Policy Research Networks, Judith Maxwell and David Hay provided overall direction and ongoing advice throughout this project. Mark Goldenberg, Susan Carter and Emily Hines offered valuable advice and feedback on several drafts of this report.

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Executive Summary

This report presents the first-ever comprehensive analysis of Canada's community sector organizations that focuses specifically on small- and medium-sized organizations. The purpose of the report is to develop a fact-based portrait of the characteristics, contributions and capacity challenges of small and medium community sector organizations. Ultimately, this report provides empirical evidence that informs the policy recommendations put forth in *Building Blocks for Strong Communities: Key Findings and Recommendations* (Goldenberg, 2006).

"Community sector" is a broad term that includes a wide range of organizations that pursue a social mission such as social enterprises, co-operatives, community economic development organizations, unincorporated grass-roots or citizens' groups, incorporated nonprofit and voluntary organizations, and registered charities. Our literature review uses this broad definition to define the scope of the research. Due to the available of data, however, our data analysis is restricted to charitable and nonprofit organizations.

The review of literature reveals that little research has been done on SMOs. In fact, the term SMO is one that currently does not exist in the literature. To date, several studies have segmented the charitable and nonprofit sector using various dimensions (e.g., income, revenues, organization type). While each of these studies illuminates some of the unique contributions and challenges facing small- and medium-sized organizations, none provides a discrete analysis of these organizations.

Qualitative research suggests that smaller organizations experience the capacity challenges that are reported by the community sector as whole more acutely than larger organizations. This conclusion, however, is generally not supported by existing quantitative research, which finds that medium-sized organizations are the most likely to report a wide range of capacity issues. The literature on the life cycles of organizations does, however, confirm the notion that organizations at different stages of development have different skill requirements. This suggests that life stages are an important consideration when assessing the capabilities and challenges that organizations face. It also indicates that policy makers need to consider life cycle issues when developing public policy to support organizations.

In an effort to fill some of the data gaps identified in the literature review and begin the exploration of the size, scope, challenges and contributions of SMOs, we examined two existing data sources: the NSNVO and CRA's T3010 returns. For the purposes of this analysis, SMOs are defined as organizations with fewer than 500 paid employees.

According to the National Survey of Nonprofit and Voluntary Organizations (NSNVO), SMOs account for the vast majority of charitable and nonprofit organizations. They also account for the majority of the revenue and employment generated in the sector. Finally, they engage most of the volunteers. Like the sector in general, however, the majority of the revenues and human resources are concentrated among a relatively small group of larger SMOs.

An examination of the characteristics of SMOs clearly demonstrates their unique nature. SMOs are more likely to serve local areas and they tend to focus on different activities than Large organizations. SMOs also exhibit a more entrepreneurial nature than Large organizations. The largest source of revenue for SMOs is earned income, whereas Large organizations receive the majority of their revenue from government. SMOs are also less likely to have paid staff. Instead, they fill their human resources needs with a flexible contingent of volunteers. The unique characteristics of SMOs are also reflected in the capacity challenges they report. SMOs are more likely to report problems recruiting and retaining volunteers and earning revenue, while Large organizations are more likely to report problems recruiting and retaining paid staff.

CRA T3010 data allow us to explore the transitions and life cycles of registered charities in Canada. These data reveal that, while most organizations do not grow or decline from one year to the next, a significant number of registered charities are in transition each year. Overall, the T3010 data show an expanding number of registered charities in Canada as the number of newly reporting organizations consistently exceeds the number of organizations that stop reporting each year. The life cycle data also indicate that the number of organizations that expanded from 1998 to 2002 exceeded the number that contracted (as measured by movement in the size segments). This suggests that there may have been a general expansion of organizations during this time period.

Our analysis of organizations by size shows that organizations with no paid staff experience two to three times the churn rate of other SMOs.[1] In general, organizations with fewer than five paid staff are responsible for the majority of both newly reporting organizations and organizations that stop reporting. These findings suggest that most organizations begin their operations with very few (if any) paid staff, and that most organizations that stop reporting also have fewer than five paid staff.

During the period under investigation, Large charitable organizations grew their share of revenues considerably. Consequently, the share of total revenue accounted for by SMOs declined. This trend may have long-term implications for growth in the charitable sector. The life cycle data show that organizations tend to move in a linear fashion, from one size segment to the next larger segment. If SMOs continue to experience a declining share of revenues, there may be fewer healthy growing charities available to expand into the Medium and Large segments in the future.

The data presented in this report demonstrate that SMOs make a vital contribution to Canadian society, the Canadian economy, and the charitable and nonprofit sector. Unfortunately, many SMOs are struggling to deliver their missions due to market failures and imperfections. SMOs face financial vulnerabilities due to limited access to funding and external funding models that generally do not cover the cost of running their operations. Many SMOs operate without paid staff, and many report difficulties recruiting, training and retaining volunteers. In order to maximize their contributions to society, many SMOs need access to more diverse and reliable financial assistance and more resources to recruit, train and retain volunteers. Many also need help recruiting, training, and retaining paid staff.

As both a policy maker and the prime funder of community organizations, government is a key player in providing the supports necessary for SMOs to flourish. Federally, and in several provinces, governments have already started the process of creating an environment that supports the work of community sector organizations. Canadian governments can also learn from Britain, France and the United States, where governments, the community sector and the private sector have all worked to create innovative support mechanisms for the community sector. Within Canada, some supports are provided specifically for SMOs, but the majority of supports have

[1] Churning refers to the sum of newly reporting organizations and organizations that stop reporting each year.

been developed for the community sector as a whole. There is, therefore, an opportunity to refine these supports to better meet the specific needs of organizations of different sizes and organizations at different stages in their life cycle.

There is also a pressing need for a strategic approach to data collection. Our research reveals that, relative to the abundance of knowledge regarding SMEs, there is a dearth of knowledge pertaining to SMOs. There is also a need to develop more comprehensive measures of the social contributions of community sector organizations. Studies such as the NSNVO help to dimensionalize the contribution of the sector from an economic perspective, but shed very little light on the immense social contributions of the sector. To gain a true understanding of the sector, we must be able to measure both of these dimensions.

Finally, our research highlights the emergence of new forms of community organizations that operate somewhere between the nonprofit and for-profit sectors. These organizations promise to deliver a blend of social and financial returns provided the right supports, structures, incentives, and measures are in place for them to exist and thrive. However, at this time, the potential of these "hybrid" organizations is unclear and additional research is required to determine the roles that various organizational forms can play in building economic and social capital.

Introduction

Small- and medium-sized community organizations (SMOs) engage in a wide range of activities. They provide opportunities for sports and recreation, work to protect the environment, provide places of worship and deliver social services. SMOs, like community organizations in general, touch virtually every aspect of Canadian life and engage millions of Canadians in the work of building stronger communities. Community sector organizations are increasingly being recognized for the significant contributions they make, and there is an emerging body of research on the sector. However, little is known about the specific contributions of small- and medium-sized organizations or the challenges they face. This report attempts to fill this gap by providing the first in-depth analysis of small- and medium-sized community organizations in Canada.

The term "community sector" defines a wide range of organizations that pursue a social mission. It includes social enterprises that engage in economic activity while pursuing a social mission, co-operative enterprises that are owned and managed by members, community economic development organizations, unincorporated grass-roots or citizens' groups, incorporated nonprofit and voluntary organizations, and registered charities. While our literature review uses this broad definition to define the scope of the research, our data analysis is restricted to charitable and nonprofit organizations. This is because neither of the main data sources relating to the community sector – the National Survey of Nonprofit and Voluntary Organizations (NSNVO) and Canada Revenue Agency (CRA) Charitable Information Returns (T3010s) – provides comprehensive data for social enterprises, co-operatives, community economic development organizations or unincorporated grass-roots or citizens' groups.

According to the NSNVO, SMOs (defined as organizations with fewer than 500 paid employees) account for 99.6% of all charitable and nonprofit organizations and 69% of all revenues in the charitable and nonprofit sector. SMOs also employ 51% of the paid staff and engage 97% of the volunteers in the sector. Unfortunately, however, many SMOs are struggling to fulfill their missions. They are financially vulnerable due to a lack of access to capital and funding models that generally do not include provisions for the recovery of operating expenses. Most SMOs do not have paid staff and are run entirely by volunteers. To maximize their contributions to society, SMOs need access to a more diverse and reliable pool of capital, access to management training programs and better systems for recruiting, training and retaining volunteers and paid staff.

The market failures and imperfections that challenge SMOs are similar to those faced by small- and medium-sized for-profit enterprises (SMEs). Research into the challenges faced by SMEs began more than twenty years ago. In response to this research, a vast network of both private and public supports has emerged to address the market failures that hinder SMEs in their attempt to fulfill their missions. In comparison, little empirical research has been conducted on SMOs and few supports exist to address the market failures they face.

This report attempts to fill this gap. It begins with a review of literature on SMOs and literature about the community sector that is relevant for SMOs. The literature review includes an examination of key concepts, a profile of charitable and nonprofit organizations in Canada, a discussion of success factors, and an exploration of issues relating to life cycle. The literature review is followed by an analysis of data from the NSNVO and CRA T3010s. The NSNVO data provide a first-ever portrait of the size and scope of SMOs, the amount of financial and human resources available to SMOs and the capacity challenges they face. The CRA T3010 data allow us to explore the distribution, birth and death rates, revenue concentration, expansion and contraction of registered charities over time. The report concludes with a review public policy supports that have already been implemented in Canada, the United States and several European countries to support the community sector and SMOs in particular.

Key Concepts

This report introduces a new term into the literature on community organizations in Canada: small- and medium-sized organizations (SMOs). In this section, we explain this term, along with a variety of other related concepts that are found in the literature, including: registered charities, nonprofit and voluntary organizations, social enterprises, community economic development organizations, co-operatives, social economy, social innovation, social entrepreneurship, and social capital.

SMO: A New Term

This report defines small- and medium-sized organizations as community organizations with less than five hundred employees. SMO is a new term, but is comparable SME, a term that is widely used in the business literature to describe small- and medium-sized for-profit enterprises. Like the term SME, the term SMO fills the need for a concept that enables comparative analysis of many different types of organizations that share one thing in common: their size.

Segmenting SMOs

In the data analysis section of this report, SMOs are further divided into segments. The sub-segment definitions are adapted from those used by the Organization for Economic Co-operation and Development (OECD) and are commonly used for analysis of SMEs. The segments are:

Micro enterprises = 1 to 4 employees
Very small enterprises = 5 to 19 employees
Small enterprises = 20 to 99 employees
Medium enterprises = 100 to 499 employees
Large enterprises = 500 or more employees

Additionally, organizations with zero employees were also added as a sub-segment, as these organizations proved to have unique characteristics and challenges.

Other Key Concepts

Registered Charities

Registered charities are organizations that have obtained registered charitable status from the Government of Canada. To be a registered charity, an organization's purposes must qualify as charitable. Four kinds of activities are considered to be potentially charitable:

- the relief of poverty;
- the advancement of religion;
- the advancement of education; and
- other purposes of a charitable nature beneficial to the community as a whole.

The last category is broad and can include, for example, providing health and social services, protecting the environment, and preventing cruelty to animals. If an organization's activities fall within these categories, and it does not offer material benefits to its members, the Canada Revenue Agency may consider it eligible to be a registered charity (Canada Customs and Revenue Agency, 2001).

Registered charities are required to file an annual information return with the CRA (T3010) which reports their annual revenues, expenses and activities.

Nonprofit and Voluntary Organizations

The NSNVO defines nonprofit and voluntary organizations as organizations that fit all of the following criteria:

- non-governmental (i.e., are institutionally separate from government);
- non-profit distributing (i.e., do not return any profits generated to their owners or directors);
- self-governing (i.e., are independent and able to regulate their own activities);
- voluntary (i.e., benefit to some degree from voluntary contributions of time or money); and
- formally incorporated or registered under specific legislation with provincial, territorial or federal governments.

The NSNVO excludes grass-roots organizations or citizens' groups that are not formally incorporated or registered with provincial, territorial or federal governments. Also excluded from the NSNVO are some registered charities that are considered to be public sector agencies (e.g., school boards, public libraries and public schools). The NSNVO data do not necessarily include co-operatives, community economic development organizations, or social enterprises. However, some co-operatives do fit all of the criteria outlined above and were included in the NSNVO. An analysis of NSNVO organizations suggests that some social enterprises are also present in the NSNVO dataset.

Social Enterprises

Social enterprises are citizen-led, community-based, organizations that use a combination of market (sales revenue and paid labour) and non-market (government funding, private philanthropy, and volunteer labour) resources to produce and deliver goods and services in the marketplace (Painter, 2005).

Community Economic Development Organizations

Community Economic Development is action by people locally to create economic opportunities and enhance social conditions, particularly for those who are most disadvantaged, on an inclusive and sustainable basis (Welcome to Community Economic Development Across Canada, n.d.).

Co-operatives

Co-operatives are community-based organizations that are designed to meet the common needs of their members. Co-operatives are owned and operated by their members. Profits can be invested to improve service to members or to promote well-being in the communities in which they operate, or distributed among member-owners (Canadian Co-operators Association, n.d.).

Social Economy

Definitions of the social economy vary, both within Canada and internationally (Goldenberg, 2004). According to the Policy Research Initiative (PRI), the Social Economy covers organizations that are located on a spectrum in between, on the one side, profit-maximizing businesses that are governed directly or indirectly by shareholders and, on the other side, public and para-public organizations that are wholly or partly controlled or owned by government (Painter, 2005). The missions of social economy organizations are based on a combination of objectives of common interest and public service (Painter, 2005). Organizations in the social economy produce goods and services in the market that respond to social and community needs. These organizations are market actors either by creating economic value through employing paid staff and providing goods and services, or directly, by competing with other businesses (Goldenberg, 2004; University of Toronto, 2005). Decisions in social economy organization are made involving diverse groups of stakeholders, and profits are re-invested in the mission of organizations (Painter, 2005).

A wide variety of organizations with social missions are part of the social economy. All charitable and nonprofit organizations that are not part of the public sector are part of the social economy. However, the social economy also includes a number of types of organizations that are often not included in the charitable and nonprofit sector. These include nonprofit mutual associations, social enterprises, market-based co-operatives, community economy development corporations, credit unions, and even some for-profit businesses (Painter, 2005).

The social economy was estimated to account for 2.6% of the total Canadian economy in 1999. This is larger than the than aerospace (0.6%), mining (1.0%), and pulp and paper industries (1.3%), and about the same size as oil and gas extraction industry (2.5%) (Painter, 2005).

Social Innovation

Social innovation is innovation applied to social and economic problems. Innovation is "change that creates a new dimension of performance" (Leader to Leader Institute, 2005; Maxwell, 2003) and it can apply to any aspect of an organization, including:

- organizational resources, such as assets, technology, or staffing;
- organizational processes, that is to say, patterns of interaction, coordination, communication and decision-making; and
- organizational values, that is to say, the criteria used for decision-making (Maxwell, 2003).

Innovation can result in new or improved activities, initiatives, services, processes, or products (Goldenberg, 2004). The charitable and nonprofit sector is well placed to be a source of social innovation.

Nonprofit organizations can go where the state cannot, delivering services more effectively or efficiently than government and in areas unlikely to be served by the private sector (Goldenberg, 2004). For example, the sector has played an "early warning" role in identifying new social issues, and mobilizing and delivering services to address these issues, as happened with the environmental movement and HIV/AIDS. Canada's early healthcare services were social innovations by the charitable and nonprofit sector.

Nonprofit organizations are more able than traditional government programs to effectively deliver local, community-based solutions across bureaucratic barriers, such as the “silos” of traditional government programs (Goldenberg, 2004). For instance, the Latin American Diabetes Program of the London InterCommunity Health Centre demonstrated exception social innovation addressing a gap in diabetes care for the Latino community. The program’s innovations included maximizing the number of people served by serving people in groups instead of one-on-one, overcoming language barriers by using medically-trained Latino people who weren’t licensed to practice in Canada, and providing free breakfasts to increasing participation in morning blood screening tests (Peter F. Drucker Canadian Foundation, 2002).

Nonprofit organizations help to build social capital, contributing to healthy democracy, providing outlets for civic and social participation, building networks and relationships, and sharing knowledge and skills (Goldenberg, 2004). In Toronto, the FoodShare organization runs the Good Food Box program, which cuts across several areas of innovation. The aim of the program is to improve food security by making top-quality, fresh food available in a way that does not stigmatize people, fosters community development and promotes healthy eating. Boxes of fresh fruits and vegetables are sold at affordable prices to people regardless of income, a community business and social enterprise that compete with corporate food suppliers. Instructions on how to prepare food and eat affordably are included with the boxes. The program was designed as a third way to address food security in the city, an alternative to the charity models of food security programming – such as food banks – and to the advocacy models of food security activism – people working for systemic, political change (Scharf, 1999).

Social Entrepreneurship

Social entrepreneurship emphasizes hybrid models of activity and organization that blur the lines between the public, private and nonprofit sectors. Social entrepreneurship can take the form of either for-profit businesses with social missions or not-for-profit organizations that engage in profitable economic activity (Canadian Centre for Social Entrepreneurship, 2001; Johnson, 2000). This can include:

- Engaging in economic activities designed to create both social benefits and financial surpluses, e.g. micro-credit development banks that finance micro-businesses, such as the Grameen Bank in Bangladesh.
- reducing costs by increasing income or diversifying income sources by reconfiguring pre-existing activities of an organization, e.g. by providing similar services to different groups, with services provided to one group in order to make a profit and services provided to the other group without necessarily generating a surplus.
- running for-profit divisions within nonprofit organizations to create surpluses that help to fund the organization’s programming (Johnson, 2000).

Donors influenced by social entrepreneurship think of funding as an investment that should return both economic and social benefits. Such donors expect funds to be used judiciously and effectively, and often want to be more involved in the use of funds than traditional supporters (Canadian Centre for Social Entrepreneurship, 2001).

Social Capital

Social capital connects social ties with the prosperity of individuals, organizations and groups. Definitions of social capital vary, but generally refer to social networks that exist within groups and that enable collective action and the capacity of individuals within the group to acquire various benefits (Adam & Roncevic, 2003; Paldam, 2000). For instance, Putnam defines social capital as "features of social organisation, such as trust, norms and networks, that can improve the efficiency of society by facilitating co-ordinated actions" (Putnam, 1995; 2000). The PRI defines social capital as "networks of social relations that may provide individuals and groups with access to resources and supports."

Viewing social ties through the lens of social capital allows these networks to be considered in instrumental terms, resources that can be invested in and drawn on in ways that complement other forms of capital available to individuals or groups (Policy Research Initiative [PRI], 2005).

Social capital is both an input for the effective operation of organizations and an output from the existence of small and medium organizations (PRI, 2005). Strong social capital helps organizations and individuals derive greater benefits from their other assets and capital resources, while the existence of vibrant civil society in the form of voluntary organizations both fosters the development of social capital and can be used as an indicator for measuring levels of social capital (Adam & Roncevic, 2003).[2]

The PRI has concluded that programs that assist populations at risk of social exclusion, programs that support life-course transitions and programs that promote community development are good candidates for government programming that strategically deploys social capital development (PRI, 2005).

[2] There is no one predominant approach to measuring social capital (Adam & Roncevic, 2003; Paldam, 2000; PRI, 2005). The PRI has defined social capital as networks of social relations, separating the concept from both the determinants and outcomes of these networks. This approach "draws a line between what social capital is and what it does" (PRI, 2005).[2] The PRI has suggested that a number of government activities should include measurements of social capital in order to further research the relationship between government programs and social capital.

Profile of the Charitable and Nonprofit Sector in Canada

In the last few years, there has been a significant amount of empirical research on Canada's charitable and nonprofit sector. This research indicates that the sector is significant in terms of the both size and scope, that makes a surprisingly large contribution to Canada's economy, and that it is a major employer. In this section, we summarize some of the key findings of recent research on the charitable and nonprofit sector.

Size and Scope

There are an estimated 161,000 charitable and nonprofit organizations in Canada (Hall, de Wit, Lasby, McIver, Evers et al., 2005). These organizations can be divided into a small group of large organizations and a large group of small organizations. The small group of large organizations accounts for the bulk of the revenue in the sector. These organizations generally operate with paid staff and are often funded by government to provide services, particularly health, education and social services. The much larger group of small organizations accounts for only a tiny proportion of total sector revenues. These organizations tend to be run entirely by volunteers and are especially common in the sports and recreation, arts and culture and environment sub-sectors, although they operate in all activity areas (Hall, Barr et al., 2005).

The majority of organizations in the charitable and nonprofit sector fill either a service role or an expressive role (Hall, Barr et al., 2005). The service role involves the delivery of direct services and describes organizations working in the education, social services, health, and housing and economic development. Large areas of service delivery under government responsibility are delivered primarily by charitable and nonprofit organizations, especially in the areas of international development, arts, social services and healthcare. Seventy-four percent of all workers (both paid and volunteer in Canada's charitable and nonprofit sector are engaged in service activities (Hall, Barr et al., 2005). The expressive role involves providing outlets to express cultural, professional or policy values, interests and beliefs. This describes organization that operate in religion, culture and recreation, professional and business associations and unions, law, advocacy and politics, and environmental activity areas. Twenty-two percent of workers in the charitable and nonprofit sector are engaged in expressive activities (Hall, Barr et al., 2005). [3]

Contributions to Economy

The NSNVO found that, in 2003, Canada's charitable and voluntary organizations had combined annual revenues of $112 billion (Hall, de Wit et al., 2005).

According to the Satellite Account of Nonprofit Institutions and Volunteering, the Gross Domestic (GDP) of the community sector was $65.1 billion in 2000 (Hamdad & Joyal, 2005). The extended GDP, which includes the estimated value of volunteer work, was $79.1 billion or

[3] There are also a smaller number of organizations that do not fit into ether the "service" or "expressive" categories, such as Grant-making, Fundraising and Voluntarism Promotion organizations and International organizations.

7.8% of Canada's GDP. This is "larger than the oil and gas extraction industry and more than 50% larger than Canada's entire retail trade industry" (Hamdad & Joyal, 2005).

Workforce

The charitable and nonprofit sector employs more than 2 million paid staff (Hall, de Wit et al., 2005). This makes it the third largest employer in Canada behind manufacturing (2.3 million) and trade (2.5 million) (Statistics Canada, 2005).

In addition to paid staff, organizations engage 6.5 million volunteers who collectively contribute over one million hours per year. This is the equivalent of 549,000 people volunteering forty hours a week, forty-eight weeks a year (Hall, McKeown & Roberts, 2001).

When compared with the for-profit sector, the charitable and nonprofit sector:

- employs more part-time workers;
- has a smaller share of younger employees and a larger share of older workers;
- enjoys a higher level of educational attainment among paid employees (27.9% with a university degree versus 15.2% in the for-profit sector);
- offers lower wages (up to 40% for equivalent jobs in other sectors) for some categories of employment, particularly those with professional designations or managerial responsibilities; and
- employs more women (74.3% versus 47.5% in the for-profit sector) (Imagine Canada, 2005; Saunders, 2004).[4]

Funding

Almost half of all revenues reported by charitable and nonprofit organizations (49%) comes from government (Hall, de Wit et al., 2005). Thirty-five percent comes from earned income from non-governmental services, and only 13% comes from gifts and donations. Levels of philanthropic funding have proven to be fairly inelastic over the last twenty years, not increasing when government funding has decreased (Carter, Broder, Easwararmoorthy, Schramm & de Wit, 2004).

[4] These figures are based on the Statistics Canada 1999 Workplace Employment Study.

Success Factors for Charitable and Nonprofit Organizations

The literature describes a variety of factors that influence the success of charitable and nonprofit organizations.[5] Major success factors include:

- human resources, including management capacity,
- funding and financing,
- innovation capacity, and
- accountability, regulation and legal factors.

In this section, we first discuss how charitable and nonprofit organizations define success. We then examine four major factors that have been identified as influencing the success of these organizations: human resources; funding and financing; innovation; and accountability, regulatory and legal issues. Where possible, we have identified challenges and success factors that appear to be particularly applicable to small- and medium-sized organizations.

Defining Success for Charitable and Nonprofit Organizations

For-profit and not-for-profit organizations often have different definitions of success. This limits the application of conventional measures of business success – such as growth, market-share, revenues, and profit – to charitable and nonprofit organizations.[6] Instead, success for charitable and nonprofit organizations can be thought of in terms of accomplishment of mission and having a desired impact on society. Measuring this type of success can be quite difficult. How many people a program serves can be one measure of program success, but a more sophisticated measure is how many people *benefited* from being served by a program (Cunningham & Ricks, 2004; Hall, Phillips, Meillat & Pickering, 2003).

Human Resources

Human resources capacity – which includes the capacity to attract, train, manage and retain volunteers, paid staff, and board members – is a major concern for organizations in general and small organizations in particular (Carter et al., 2004; Hall, Andrukow, Barr, Brock, de Wit et al., 2003; Roberts, 2001, 2002; Saunders, 2004).

Cutbacks and downloading by the government have led to increased responsibilities for nonprofit organizations and a growing demand for volunteers to deliver services (Carter et al., 2004; Hall, Andrukow et al., 2003; Saunders, 2004). A lack of long-term or sustained funding, especially as manifested in the shift from core to project-based funding, is seen as a major hindrance to the human resources capacity of organizations (Hall, Andrukow et al., 2003; Saunders, 2004).

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[5] Interestingly, these factors are most often framed as “capacity issues” that inhibit success.

[6] For many SMEs, measures of success may also include non-economic measures, such as quality of life, or quality of the product or service offered (Goldenberg, 2006).

Many organizations rely heavily on volunteers to carry out their core functions (Hall, Andrukow et al., 2003). Organizations report that more volunteers are needed, particularly volunteers willing to make ongoing, long-term commitments (Hall, Andrukow et al., 2003). When new volunteers cannot be obtained, current volunteers become overworked and burn out, which can leave them to leave and take with them valuable knowledge and experience (Hall, Andrukow et al., 2003). Demands for volunteer training, development and management are increasing (Hall, Andrukow et al., 2003). There are costs associated with managing volunteers and reductions in the financial capacity to recruit and retain volunteers affect this capacity (Hall, Andrukow et al., 2003). Larger organizations tend to have a greater capacity than smaller organizations to recruit and manage volunteers (Hall, Barr et al., 2005).

Organizations report that more staff are needed, but that they lack the financial capacity to recruit and retain staff (Hall, Andrukow et al., 2003). Many organizations, especially small organizations, report that managers are working to full capacity, and express concern about burnout (Rochester et al., 2000). Often, the manager may be the organization's only employee. At many organizations, especially small organizations, small staffing contingents mean that managers must do a wide variety of tasks from strategic financial planning to office maintenance. Organizations report an increased need for staff training and development due to the growing complexity of relationships in the sector (Hall, Andrukow et al., 2003; Rochester et al., 2000; Saunders, 2004).

Organizations need to recruit professionalized staff and staff with specialized skills relevant to the organizations' activities. Smaller organizations, however, often lack the resources to recruit and retain qualified staff (Saunders, 2004). And when appropriate staff are obtained, they are often underpaid for their expertise (Brock, 2003). Managers and professionals working in the nonprofit sector are typically paid lower wages than those in the for-profit sector (Saunders, 2004). Similar to the situation with volunteers, when new staff cannot be obtained, current staff burn out. Many leave, taking their knowledge and experience with them. Organizations report a need for improved working conditions, improved compensation packages and pro-active recruitment and retention strategies. Donors, however, are reluctant to support organizations with public images of high wages, which constrains salaries (Brock, 2003; Hall, Andrukow et al., 2003; Saunders, 2004).

In the charitable and nonprofit sector, most managers do not have formal training and education in management, though many have advanced training and education relevant to the activity area of the organization, often including graduate and professional degrees (Saunders, 2004). Factors contributing to management capacity issues include the increased need for training and development, motivation and retention issues, the increased importance of unionization (Hall, Andrukow et al., 2003), and the closer monitoring and reporting requirements of funders (Carter et al., 2004).

Funding and Financing

Financial capacity is increased by secure and sufficient funding and by financing from diverse sources and in appropriate forms. Scott (2003), however, describes the current funding environment for charitable and nonprofit organizations as "unstable, unpredictable, and fiercely competitive." Organizations report both limited access to funding and financing, and capacity issues linked to the funding that is available (Carter et al., 2004; Hall, Andrukow et al., 2003;

Scott, 2003). For small organizations, funding and fundraising is a major concern (Rochester et al., 2000).

The most cited challenge concerning financial capacity is the lack of long-term core funding and the consequent reliance on project and program funding to achieve organizational goals (Brock, 2003; Carter et al., 2004; Hall, Andrukow et al., 2003; Roberts, 2001, 2002; Scott, 2003). There is a reluctance to fund administrative costs or the full costs of programs, and funding is less predictable and generally provided for shorter periods of time than it used to be. Additionally, funding priorities often shift and reporting requirements for funding have increased greatly. Funders are increasingly providing partial, contingent funding for projects and requiring that organizations secure funding from multiple sources (Scott, 2003). The absolute amount of funding available from governments to organizations has often either declined or remained constant in spite of inflation, increasing demands for services, and increased competition for funds with other organizations and even private businesses (Hall, Andrukow et al., 2003; Hall, Barr et al., 2005; Rochester, Harris & Hutchison, 2000).

This situation has severely strained many organizations. Staff are required to spend large amounts of time applying for funding and administering funding instead of delivering services. Volatile funding levels of funding hinders long-term planning (Roberts, 2001, 2002). “Mission drift” occurs as organizations modify programming in order to qualify for narrow funding criteria. Requirements for multiple funders and multiple partners can cause programs to collapse when one funder is lost, while reporting requirements for multiple funders take up great amounts of staff time. “Advocacy chill” results when organizations shy away from advocacy in order not to risk funding. Many charitable and nonprofit organizations are at risk of collapse and failure because of the fatigue of volunteers and staff from this regime (Eakin & Richmond, 2005; Hall, Andrukow et al., 2003; Roberts, 1999, 2001, 2001, 2002; Scott, 2003; Struthers, 2004).

Charitable and nonprofit organizations are often unable to access financial tools that are available to small- and medium-sized enterprises in the private sector, especially debt-based financing such as mortgages or operating lines of credit (Diekmann, 2004; Imagine Canada, 2005; Strandberg, 2004). Large, traditional financial institutions are often reluctant to lend to charitable and nonprofit organizations, especially smaller ones, due to factors such as the possibility of negative public relations fallout in the case of foreclosing on a loan, and their limited capacity of financial institutions to adjust established policies and procedures to accommodate the varied revenue models of charitable and nonprofit organizations. In the case of small organizations, the risks of loaning to organizations that often do not have the equity to secure a loan is also a factor (Diekmann, 2004).

Options for diversifying funding for organizations include increasing the support from non-governmental sources and increasing the proportion of funding from earned revenues. However, smaller organizations generally do not have the same fundraising capacity as larger organizations, limiting their ability to access funding. Once funding has been secured, financial management itself can become a capacity issue (Rochester et al., 2000). While many organizations earn revenues from the sales of goods and services and other business enterprises, the Canada Revenue Agency has limitations on allowable business activity for organizations that have charitable status (Carter et al., 2004). Larger organizations tend to have a greater capacity than smaller organizations to attract private donations and to compete for government contracts and funding as well as for other sources of funding such as the sale of goods and services (Hall, Barr et al., 2005).

Innovation

The innovation capacity of organizations is connected with a number of factors, including risk-taking capacity, opportunities for collaboration, and information technology and information management capacity.

The capacity to innovate is related to the overall capacity of organizations, especially the ability of organizations to take risks and to risk losses (Goldenberg, 2004). To innovate, organizations also need access to capital and secure funding – for instance by having the capacity to increase their commercial activity and entrepreneurship (Laforest & Phillips, 2003). Mission drift, or modifying programming to fit funding criteria, has been cited as a factor that interferes with the ability of organizations to innovate (Carter et al., 2004). On the other hand, the Peter F. Drucker Canadian Foundation has found that successful innovation increases with the degree to which an organization must innovate in order to make its programming work and the degree to which these innovative activities affect the overall organization (Peter F. Drucker Canadian Foundation, 2005).

The social innovation capacity of organizations increases with strong human resources (i.e., bright people, organizational resources and interconnections between individuals) (Ruvinsky, 2005). However, innovation requires not only having the right people, but also giving these people the opportunity to interact in ways that enable innovation.

Innovation is a social process that thrives when people meet and work together. It requires both codified, recorded knowledge and the tacit knowledge that is transmitted through social learning, generally when people meet and work face-to-face (Maxwell, 2003). Increasing the capacity and opportunities for staff and others engaged with the organization (such as volunteers and members) to make personal contact both within the organization and with other organizations enables innovation.

Because of this, physical space and place are seen as important factors in fostering innovation. Similar to industrial innovation clusters, social innovation clusters have been created to promote the transmission of the tacit knowledge held by small and medium organizations. The Center for Social Innovation in Toronto is one such social innovation cluster, located in a building full of small and medium organizations, and providing semi-shared office space and resources to a diverse group of small organizations (http://www.the215.ca).

Partnership-building either between organizations or across the public, private and nonprofit sectors is seen as a way to increase successful innovation (Peter F. Drucker Canadian Foundation, 2005). In addition, there is an increased demand for collaboration and partnerships among organizations (Hall, Andrukow et al., 2003). However, many participants in the charitable and nonprofit sector do not see themselves as part of a sector or movement, which makes it difficult to have a collective voice and collaborate. It is a challenge for organizations in remote parts of the country and for marginalized populations to network with others and to join coalitions (Carter et al., 2004).

To innovate, organizations also need to be able to effectively use information technology (Laforest & Phillips, 2003) and the charitable and nonprofit sector has tended to lag behind the public and private sectors in this area. Many problems relating to IM/IT capacity are the consequence of larger capacity issues such as financing (IM/IT Secretariat, 2002). Restrictions on using funding for core operations also inhibits the effective use of IM/IT (IM/IT Secretariat, 2002). In fact, some small charitable and nonprofit organizations still report a need for access to basic technological infrastructure services such as computers, phones, fax machines, and photocopiers. Organizations in rural and remote areas often lack the communications infrastructure of urban areas like high-speed Internet access. Once adequate technology has been acquired, there are ongoing needs to maintain IT infrastructure, such as funding to maintain equipment and purchase software, training and technical support (Roberts, 2001).

Accountability, Regulation and Legal Issues

Overall, a streamlined regulatory framework has been identified as a need for organizations (Carter et al., 2004). The current accountability, regulatory and legal environment often draws cash-strapped organizations and overworked staff away from the core missions of organizations, or prevents organizations from trying new and innovative activities.

Most organizations support their activities with a variety of funding sources, each with different and sometimes conflicting accountability requirements. These accountability requirements can be onerous, detracting from the ability of organizations to accomplish their missions (Hall, Andrukow et al., 2003; Hall, Phillips et al., 2003; Roberts, 2001). Small organizations lack the capacity and expertise of larger organizations to administer these requirements (Roberts, 2002; Rochester et al., 2000).

Levels of scrutiny are often disproportionate to either the value of funding contracts or to the risks associated with the initiative being funded. The costs of reporting and accountability requirements are rarely recognized in funding agreements, so the costs of compliance divert resources away from the core mission of the organization. In addition, different departments of government have different accountability requirements (Imagine Canada, Canadian Council on Social Development & Canadian Policy Research Networks, 2005).

The Canada Revenue Agency regulates charitable organizations. Capacity issues related to the regulation of charities include:

- The requirements of the tax system generally do not distinguish between large and small organizations. As most small and medium organizations do not have the financial management and reporting capacity of larger organizations, this may cause these organizations to become non-compliant and deregistered (Carter et al., 2004; Joint Regulatory Table, 2003; Phillips, 2001).
- The current definition of charitable purposes in Canada has remained essentially unchanged for hundreds of years, in spite of vast changes in expectations for and activities of organizations, preventing many nonprofit organizations – such as environmental organizations – from accessing the benefits of charitable status (Carter et al., 2004)
- The extent of allowable advocacy activity restricts the ability of organizations to engage in public policy work, even as there is as demand for this type of work grows (Carter et al., 2004).
- The limits on allowable business activity restrict the ability or organizations to engage in social enterprise (Carter et al., 2004).

- The current regulatory regime is not accessible and transparent: information on how the Canada Revenue Agency makes decisions about charitable status for organizations is generally not available (Carter et al., 2004; Joint Regulatory Table, 2003).
- The range of penalties available for enforcing regulation is very limited. Under the current system de-registration is the only sanction available (Carter et al., 2004; Joint Regulatory Table, 2003; Phillips, 2001).[7]

Liability insurance has also been identified as a priority for the Canadian charitable and nonprofit sector. Factors affecting the risk and liability environment of organizations and that have increased insurance rates for organizations include:

- government legislation and regulation, which largely determines the legal environment of risk and liability;
- market cycles, which affect insurance costs;
- increased exposure to risk for organizations due to liability for volunteers;
- a perceived increase in the litigiousness of Canadians;
- insufficient market information and information on the risks associated with charitable and nonprofit organizations; and
- the structure of insurer-independent broker compensation arrangements, which often does not result in the most favourable rates being offered to market niches such as organizations (Hall, Phillips et al., 2003; Imagine Canada, 2005; Voluntary Sector Forum, 2004).

Risk and liability can be especially problematic for small organizations as they have less revenue and are more reliant on volunteers than are larger organizations, increasing their exposure to risk while lacking the capacity to afford being sued (Roberts, 2001; Rochester et al., 2000).

[7] Several of these problems could be addressed by a new system of recourse and appeals for decisions made by the regulator. The law covering the regulation of charities in Canada has become stagnant due to how few government decisions regarding charities are appealed. Bringing more cases before the courts could clarify the law governing charities (Joint Regulatory Table, 2003) Currently, appeals of decisions to deny or revoke charitable status need to be brought to the Federal Court of Appeal, which is more costly than the Tax Court which could be used for these appeals instead (Joint Regulatory Table, 2003).

Life Cycles of Charitable and Nonprofit Organizations

Charitable and nonprofit organizations appear to have four key developmental stages: startup, growth, maturity and finally, for some organizations, stagnation and decline. These stages generally correspond to increasing levels of professionalization, formalization, specialization and sophistication of administrative, governance and financial systems. Failure to meet the needs of developing organizations – especially the need for increasingly formalized systems of support – can hinder success.

In this section, we explore the four major stages that charitable and nonprofit organizations pass through. Before we begin, however, a few caveats should be noted. First, while the development of organizations is to some extent predictable, there are exceptions to general patterns and the patterns themselves are described differently by different sources (Mathiasen, 1990). Second, organizations do not necessarily develop in a linear fashion, and most analyses do not assign specific lengths of time to each stage (Dart, Bradshaw, Murray & Wolpin, 1996; Mathiasen, 1990). In fact, Connolly, Colin Klein & The Conservation Company (as cited by Myers, 1997/2003) argue that different aspects of an organization can be at different stages of development. Third, some observers (Dart et al., 1996) argue that describing the growth of organizations in terms of single variables – such the number of years in existence – may not provide a good model of organization development. Finally, it is important to note the most published work on the life cycles of charitable and nonprofit organizations is not based on quantitative research.[8]

Startup

In the startup phase, organizations have few or no formal systems – administrative, governance, financial or otherwise. This is a stage of informal structures and a wide range of contributions from all who participate in the organization. As organizations develop, administrative, governance and financial systems begin to form. There can be resistance to formalization at this stage. Organizations in this stage generally have a small group of dedicated and largely homogeneous volunteers, a small board of directors that is deeply involved in organization activities, and generally no paid staff (Mathiasen, 1990). Revenues tend to be small, and organizations generally lead a hand-to-mouth existence (Myers, 1997/2003). These organizations

[8] The primary exception to the lack of quantitative lifecycle analyses and SMO-specific lifecycle research is Tucker, House, Singh & Meinhard's 1984 analysis of Voluntary Social Service Organizations (VSSOs) in Metro Toronto (Tucker, House, Singh & Meinhard, 1984). The authors conducted a longitudinal analysis of VSSOs over thirteen years, from 1970 to 1983, to examine some of the factors that influence the formation, growth and death of VSSOs and to demonstrate the relationship between changes in government funding (market shocks) and the birth and death rates of VSSOs. The research found that conditions are conducive to forming new organizations when the environment is rich in resources available for organizations to use, such as government funding, when organizations have relatively low levels of control (measured in terms of funding source concentration), and when barriers to entry for new organizations are low (Tucker et al., 1984). This research demonstrated the unique perspective to be gained from population statistics gathered over a prolonged period of time. Since this study was published in 1984, little empirical data has been gathered on the charitable and nonprofit sector in Canada to inform us about how organizations grow, decline, and transition over time.

are often dominated by the founders and often based out of the founder's home. For boards, this founding period generally extends from the foundation of the organization until a crisis when the composition or role of the board is questioned (Wood, 1992). Obstacles in this stage include a resistance to formalizing, a lack of funding and a lack of expertise (Sharken Simon, 2001).

Growth

In this stage, organizations typically become more formalized. Some organizations hire their first paid staff. The mission becomes solidified and the need for funding grows. Operating procedures are standardized, job descriptions and personnel policies become formalized, and the jacks-of-all-trades disappear (Nonprofit Centre, n.d.). Boards are still "working boards," but generally become larger, more diverse in membership and more specialized in function (Mathiasen, 1990). Standing committees are established and there is a greater emphasis on fundraising (Mathiasen, 1990; Wood, 1992). It has been noted that, as organizations age, boards grow more professionalized, less involved with daily operations, more involved in governance roles, and more dominated by members selected for social prestige (Dart et al., 1996; Mathiasen, 1990; Sharken Simon, 2001; Wood, 1992). Dart et al. did not, however, find this always to be the case. Board behaviour, they argue, cannot be explained by one-variable models.

Organizations at this stage are growing but still unstable. They often have insecure funding and the beginnings of simple, unsophisticated administrative systems. Staff size is increasing, divisions of labour are beginning and there is more centralized management (Myers, 1997/2003).

Obstacles that organizations face at this stage include resistance to expanding the organization and including new elements in the organization's program, and not having the financial or human resources to implement changes and innovations (e.g., implementing accountability systems, broadening the volunteer base). Funders, clients, volunteers and staff can become alienated by the disorder that arises during this time of growth.

Maturity

Mature organizations are productive, well-established, secure in structure and services and recognized in their field (Sharken Simon, 2001). Organizations have established and recognized programs, larger staffs with professional managers, delegation of authority, clear accountability and formal communications. The size of the board increases, the board composition becomes more diverse, a committee structure develops, and there is an increasing emphasis on policy, oversight and fundraising (Dart et al., 1996; Myers, 1997/2003). Formal administrative systems are in place with standardized and efficient operations, and there are reliable and diverse funding streams, significant cash reserves and perhaps even an endowment (Myers, 1997/2003).

Fundraising and ratifying the governance decisions of an executive committee or executive officers and devolution of member involvement to sub-committees are characteristic of boards at this stage (Dart et al., 1996; Mathiasen, 1990; Wood, 1992). Organizations show increasing delegation, expanding into new areas of activity while decentralizing decision-making downwards towards staff. Planning becomes more formal and time consuming, but also provides greater coherence, consolidation and organization.

Sustaining momentum is a primary objective in the mature stage. Obstacles include either too much control or too little control by leadership and communication challenges between staff and the board or among staff. Organizations are stable, but this can discourage risk-taking. Conflicts may arise between new and longstanding staff and board members (Sharken Simon, 2001). The board may find itself unable to move away from involvement in daily operations towards a governance role (Sharken Simon, 2001). Mature organizations eventually need to review and renew their operations to prevent stagnation and decline. Resistance by staff and board members to necessary changes is a major obstacle to this process of organizational renewal (Sharken Simon, 2001).

Stagnation and Decline

Challenges facing organizations that are stagnating or declining can relate to any area of activity including governance, leadership, financing, administrative systems, staffing, products, services and marketing. Inappropriate leadership, financial crises, legal proceedings, a general lack of passion and other problems can work together to pull an organization towards its demise (Sharken Simon, 2001). Stagnating and declining organizations often are in denial about their state. A number of factors can undermine the fulfillment of an organization's mission and indicate that an organization is beginning to decline, including decreasing client demand, increased costs, loss of income, heightened competition and stale leadership (Connolly & Colin Klein, 1999).

Organizations stagnate when they lose sight of the market for their programs. The management focus in a stagnating organization may be on individual programs instead of the overall mission of the organization, staff morale can be low and turnover high. Board turnover can be low and board activity sluggish. Financial problems include loss of financial support, falling behind on financial obligations and insufficient cash reserves. As things worsen, programs no longer meet market needs, credibility with funders and clients is lost, management is characterized by infighting and the departure of key staff, key board members leave, administrative systems become dominated by crisis management instead of formal systems with strong internal controls, and bankruptcy may be a possibility (Myers, 1997/2003).

Findings from the National Survey of Nonprofit and Voluntary Organizations

In 2003, representatives of approximately 13,000 registered charities and incorporated nonprofit organizations responded to the National Survey of Nonprofit and Voluntary Organizations (NSNVO). They were asked to report on the characteristics of their organization and the factors that influenced the capacity of their organization to achieve its mission. The data presented in this report have been weighted to provide estimates of the estimated 161,000 registered charities and incorporated nonprofit and voluntary organizations in Canada.

The data available from the NSNVO allow us to categorize registered charities and incorporated nonprofit organizations by size (measured by number of employees) and then examine the characteristics, financial and human resources and capacity challenges faced by organizations of various sizes.

Organizations that participated in the NSNVO were divided into discrete size segments using the Industry Canada definition for Small, Medium, and Large organizations. Small organizations were further sub-divided to enhance the data analysis. Cross-tabulations and descriptive statistics were run against these segments to explore their key characteristics and financial and human resources capacities and challenges.

An important caveat to bear in mind when interpreting the findings from this report is that the data analysis do not distinguish between organizations that provide *service functions* – the delivery of direct services such as education, health, housing and economic development promotion – and those that serve *expressive functions* – provide avenues for the expression of cultural, spiritual, professional, or policy values, interests, and beliefs (Hall, Barr et al., 2005). An examination of the detailed data analysis will allow the reader to determine which findings are more likely to apply to different types of organizations.

Key Characteristics

Small and Medium organizations have many characteristics that differentiate them from Large organizations. In this section, we explore how organizations of various sizes differ with respect to their primary activity areas, their tendency to be registered charities, their geographic focus and the number of years they have been in operation.

Distribution of Organizations

The vast majority (99.6%) of charitable and nonprofit organizations are small and medium in size (see Table 1). Medium organizations (100 to 499 employees) account for a mere 1% of all organizations while 98.6% are small (less than 100 employees). Large organizations account for just 0.4% of all charitable and nonprofit organizations.

Table 1: Percentage of organizations by size segment, NSNVO 2003

	Number of Employees	All Organizations (%)
All SMOs	< 500	99.6
No paid staff	0	54
Micro	1 to 4	26
Very Small	5 to 19	13
Small	20 to 99	5
Medium	100 to 499	1
Large	500+	0.4
All Organizations		100

Primary Activity Areas

More than half of all SMOs are involved in three activity areas: Sports and Recreation (21% of SMOs), Religion (19%), and Social Services (12%) (see Table 2). As SMOs represent 99.6% of all charitable and nonprofit organizations, this distribution closely approximates the distribution for all organizations in the charitable and nonprofit sector. It is only by disaggregating SMOs into sub-groups that we find distinct activity areas by organization size.

Organizations with no paid staff are unique from other SMOs. While many are Sports and Recreation organizations (28%) and Religious organizations (12%), they are also often involved in Grant-making, Fundraising and Volunteerism Promotion (15%) and Arts and Culture (10%).

More than half of Micro organizations (1 to 4 paid staff) and Very Small organizations (5 to 19 paid staff) are Sports and Recreation, Religious or Social Services organizations. Micro organizations are most commonly Religious organizations (37%), while Very Small organizations are most commonly Social Services organizations (23%).

Small organizations (20 to 99 paid staff) are predominately Social Services organizations (31%) but Sports and Recreation organizations (14%), Health organizations (12%) and Education and Research organizations (10%) are also common in this size group.

Medium organizations (100 to 499 paid staff) generally operate in the same activity areas as Small organizations. Hospitals, Universities, or Colleges (10% of Medium organizations) are however, increasingly common in this group.

Large organizations (500 or more paid staff) generally operate in quite distinct activity areas when compared to SMOs. Almost half of all Large organizations (48%) are Hospitals, Universities, and Colleges. An additional 13% are Health organizations.

Table 2: Percentage of organizations by primary activity area, NSNVO 2003

Number of paid staff	All SMOs 0 – 499	No Paid Staff 0	Micro 1 – 4	Very Small 5 – 19	Small 20 – 99	Medium 100 – 499	Large 500 +
	% of organizations						
Sports and Recreation	21	28	12	12	14	10	2
Religion	19	12	37	17	7	4	X
Social Services	12	7	12	23	31	29	5
Grantmaking, Fundraising and Volunteerism Promotion	10	15	4	4	3	X	X
Arts and Culture	9	10	6	8	5	8	X
Development and Housing	8	8	8	8	4	4	X
Business or Professional Associations or Unions	5	4	7	6	6	7	X
Education and Research	5	4	5	8	10	8	X
Health	3	2	2	6	12	15	13
Environment	3	4	2	3	1	0	X
Law, Advocacy and Politics	2	2	2	2	2	1	X
International	1	1	0	1	1	X	X
Hospitals and Universities and Colleges	1	0	0	0	2	10	48
Other	2	2	2	2	1	4	X

X = data have been suppressed to meet the confidentiality requirements of the Statistics Act.

Charitable Status

The majority (56%) of SMOs are registered charities (see Table 3). Medium-sized organizations are the most likely (68%) to be registered charities, whereas organizations with no employees are least likely to be registered charities (49%). After organizations with no employees, Large organizations are the least likely to be registered charities (54%).

Charitable status is largely determined by the activity areas of organizations. For example, 94% of Religious organizations, 87% of Hospitals and 79% of organizations involved in Health or Grant-making, Fundraising, Voluntarism Promotion are registered charities, compared to just 7% of Business and Professional Associations and Unions.

There are many advantages to being a registered charity. Organizations with charitable status can provide tax deductible receipts to donors, they are eligible for donations from registered charitable foundations, they may be exempt from paying income tax and property tax, and they may be eligible to receive partial rebates on the payment of federal taxes on goods and services and provincial sales taxes in some provinces (Hall, de Wit et al., 2005).

Table 3: Charitable status of organizations, NSNVO 2003

	Registered Charity (%)	Not a Registered Charity (%)
All SMOs	56	44
No paid staff	49	51
Micro	64	36
Very Small	63	37
Small	64	36
Medium	68	32
Large	54	46

Geographic Focus

There is a very clear distinction between SMOs and Large organizations when it comes to the geographic area they serve. As organizations grow in size, they are less likely to be locally focused. The majority of SMOs (64%) serve local areas — neighborhoods, cities, towns, or rural municipalities; 19% serve a region of a province and only 17% serve an entire province or more than one province (see Table 4). Medium-sized organizations are more likely to serve a region of a province (33%) or an entire province (10%) than SMOs in general. Large organizations, on the other hand, predominantly serve regions within a province (63%). Only 23% serve local areas.

Table 4: Main geographic area served, NSNVO 2003

	All SMOs	No paid staff	Micro	Very Small	Small	Medium	Large
Number of paid staff	0 – 499	0	1 – 4	5 – 19	20 – 99	100 – 499	500 +
	% of organizations						
Neighborhood, city, town, rural municipality	64	66	65	59	55	48	23
Region of a province	19	17	20	23	23	33	63
Province	9	8	8	9	12	10	7
More than one province	2	1	2	1	3	2	X
Canada	3	3	3	4	5	4	3
International	3	4	2	3	3	3	3
Other	0	1	0	1	X	X	X

X = data have been suppressed to meet the confidentiality requirements of the Statistics Act.

Years in Operation

SMOs are more likely to be young organizations. Almost half (48%) of SMOs have been in operation for less than 20 years and only 22% have been in operation for 40 years or more (see Table 5). Larger SMOs are more likely to have existed for a longer period of time. Forty-six percent of Medium organizations have been in operation for 40 years or more. In contrast, the majority of Large organizations (63%) have been in operation for 40 years or more, and 83% have been in operation for at least 30 years.

Table 5: Years of operation, NSNVO 2003

Number of paid staff	All SMOs 0 – 499	No paid staff 0	Micro 1 – 4	Very Small 5 – 19	Small 20 – 99	Medium 100 – 499	Large 500 +
	% of organizations						
0-9 years	22	27	20	16	9	7	X
10-19 years	26	26	27	27	25	8	X
20-29 years	19	20	16	20	25	23	6
30-39 years	11	10	9	13	17	17	20
40+ years	22	16	29	25	24	46	63

Regional Distribution of Organizations

For the most part, organizations of various sizes are distributed across the provinces in a pattern that is fairly comparable to the distribution of all organizations. There are a few exceptions worth noting.

Organizations that are Very Small and Small are highly concentrated in Quebec (34% and 36% of the Very Small and Small organizations respectively) (see Table 6). Organizations that are Very Small are less likely to be located in Alberta (9%), and those that are Small are less likely to be located in British Columbia (10%).

Medium organizations are under-represented in all provinces except Ontario where they are significantly over-represented. Almost half (49%) of Medium organizations are in Ontario compared to just 28% of all SMOs.

Large organizations are also highly concentrated in Ontario (44%), and under-represented in Quebec, the Atlantic Region and most notably British Columbia, which accounts for just 4% of Large organizations.

Table 6: Percentage of organizations by region, NSNVO 2003

Number of paid staff	All SMOs 0 – 499	No paid staff 0	Micro 1 – 4	Very Small 5 – 19	Small 20 – 99	Medium 100 – 499	Large 500 +	All Organizations
	% of organizations							
British Columbia	13	14	11	11	10	10	4	13
Alberta	12	13	12	9	11	7	13	12
Prairies	11	10	12	12	11	9	10	10
Ontario	28	28	29	27	26	49	44	28
Quebec	29	29	26	34	36	19	24	29
Atlantic Canada	8	7	10	8	7	6	5	8

Summary

More than 99% of all charitable and nonprofit organizations in Canada are SMOs. An examination of the characteristics of these organizations clearly demonstrates the unique nature of Small and Medium organizations when compared to Large organizations. SMOs are more likely to serve local areas, and they are more likely to be Sports and Recreation organizations, Religious organizations, Social Services organizations, or Grantmaking, fundraising and voluntarism promotion organizations. SMOs have also been in operation for a shorter period of time than Large organizations.

While it is safe to conclude that SMOs are unique from Large organizations, not all SMOs are alike. The characteristics of SMOs vary widely from the distinctive group of organizations with no paid staff at one extreme to the equally distinctive group of Medium organizations with 100 to 499 employees at the other.

Financial Resources

Charitable and nonprofit organizations have a substantial economic presence in Canada. In this section, we explore the distribution of revenues, sources of revenues, and levels of dependency on different sources revenues for organizations of various sizes.

Distribution of Revenues

While SMOs account for 69% of the total revenues in the charitable and nonprofit sector, these revenues are highly concentrated among organizations with five or more paid staff (see Table 7). Organizations with five or more paid staff represent about 20% of all SMOs, but account for 78% of all revenues reported by SMOs. On the other hand, 54% of all organizations have no paid staff. These organizations account for just 6% of all sector revenues and about 9% of SMO revenues.

The average revenues of organizations of various sizes suggests that as organizations grow in size, their average revenues grow at an increasing rate. For example, on average, Micro organizations receive about $232,341 a year. This is three times the average revenue of an organization with no employees ($78,623). In comparison, Medium organizations receive 4.3 times the average revenue of Small organizations and Large organizations receive 5.6 times that of Medium organizations.

Only when organizations have five or more employees do they garner a share of total revenue that meets or exceeds their proportion of the total organizations in the sector.

Table 7: Revenues by size of organization, NSNVO 2003

	All Organizations (%)	All Revenues (%)	Total $ millions	Average ($)	Magnitude of increase in average revenues
All SMOs	99.6	69	77,178	480,384	
No paid staff	54	6	6,843	78,623	
Micro	26	9	9,847	232,341	3.0
Very Small	13	14	15,147	726,964	3.1
Small	5	18	20,370	2,512,164	3.5
Medium	1	22	24,972	10,870,479	4.3
Large	0.4	31	34,417[E]	60,619,658[E]	5.6
All Organizations	100	100	111,596	692,163	

E = Use with caution

Average revenue data mask the magnitude of the income disparities between various organization sizes. By examining the distribution of organizations by revenue ranges, the full extent of this discrepancy is revealed. These data indicate that, despite having average revenues of over $78,000, the majority of organizations with no employees (68%) report less than $30,000 a year (see Table 7 & Table 8).

There are also wide income disparities among Micro, Very Small and Small organizations. For example, the average income for Micro organization is over $230,000, but about half (51%) earn less than $100,000 annually. In all of these cases, the organizations at the top end of the income ranges are driving up the average income for the segment.

Table 8: Percentage of organization by revenue size, NSNVO 2003

	All SMOs	No paid employees	Micro	Very Small	Small	Medium	Large
Number of paid staff	0 – 499	0	1 – 4	5 – 19	20 – 99	100 – 499	500 +
	% of organizations						
$0 - $29,999	42	68	17	3	1	X	X
$30,000 - $99,999	21	20	34	9	2	X	X
$100,000 - $249,999	16	8	32	26	7	X	X
$250,000 - $499,999	8	2	11	30	11	X	X
$500,000 - $999,999	5	1	4	19	25	2	X
$1,000,000 - $9,999,999	6	1	3	13	50	69	14
$10,000,000 +	1	0	0	1	3	26	69

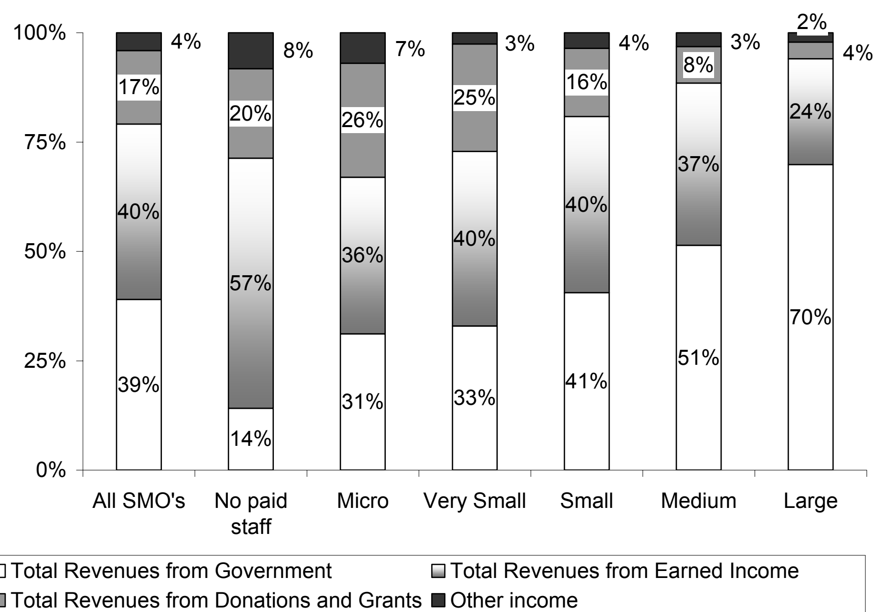
X = data have been suppressed to meet the confidentiality requirements of the Statistics Act.

Sources of Revenues

In general, SMOs rely on a mix of revenue sources. Forty percent of their revenue is earned income from non-government sources, generated by memberships and sales of goods and services (see Figure 1). Governments provide 39% of the funds that SMOs receive; 17% is received in the form of gifts and donations from individuals, corporations and other organizations and 4% is from other sources. Smaller organizations, however, have a very different revenue profile from larger organizations. The majority of revenues (57%) of organizations with no paid comes from earned income, while Medium organizations rely on government for 51% or their revenues.

Figure 1 clearly illustrates the striking relationship between organization size and the importance of government funding. On average, organizations with more employees receive a larger portion of their revenues from government sources than organizations with fewer employees. At one end of the spectrum, organizations with no employees receive just 14% of their revenues from government sources. In comparison, Large organizations receive 70% of their revenues from government sources. Most interesting is the consistent pattern of increasing dependence on government revenues as organization size increases. Interestingly, when we examine Micro, Very Small, Small and Medium organizations, the importance of revenues from gifts and donations declines almost proportionate to the rise in importance of government sources of revenue as we move from each size-segment to the next larger size segment.

Figure 1: Sources of revenue, NSNVO 2003



Detailed Sources of Revenues

A detailed look at the sources of revenues of charitable and nonprofit organizations reveals several differences in the sources of funding for organizations of various sizes.

SMOs with no paid staff report that 19% of their total revenues are from investment income. This contrasts sharply with all other SMOs, which report that 3% to 6% of their revenues are from this source (see Table 9). The decline in the importance of gifts and donations as a revenue source for organizations (as noted above) can largely be traced to the declining importance of individual donations for larger SMOs. For example, individual donations account for 19% of total revenues for Micro organizations, but only 5% of revenues for Medium organizations and 1% of revenues for Large organizations.

When it comes to government funding, most organizations receive the majority of their funding in the form of grants. Medium organizations are the exception, receiving an equal proportion of their funding from government grants (26%) and government payments for goods and service (25%). In most cases the majority of government funding, in the form of either grants or payments, comes from provincial governments. Organizations with no paid staff and Micro organizations are the exception, receiving significantly larger proportions of government grants from the federal rather than provincial governments.

Table 9: Detailed sources of revenue, NSNVO 2003

	All SMOs	No paid staff	Micro	Very Small	Small	Medium	Large
Number of paid staff	**0 - 499**	**0**	**1 – 4**	**5 – 19**	**20 – 99**	**100 – 499**	**500 +**
			% of revenue				
Total Government Revenue Sources	**39**	**14**	**31**	**33**	**41**	**51**	**70**
Government payments for goods and services	***16***	***4***	***5***	***11***	***17***	***25***	***23***
Payments from Municipal Government	1	0	1	1	1	2	0
Payments from Provincial Government	13	3	2	7	14	21	22
Payments from the Federal Government	2	1	1	3	2	2	1
Government Grants and Contributions	***23***	***10***	***26***	***22***	***24***	***26***	***47***
Grants from Municipal Government	1	1	1	2	2	1	0
Grants from Provincial Government	15	3	6	14	17	21	44
Grants from the Federal Government	7	6	19	7	5	4	2
Earned Income	**40**	**57**	**36**	**40**	**40**	**37**	**24**
Charitable gaming	2	5	2	2	1	0	0
Membership fees or dues	13	13	12	16	13	13	5
Fees for goods or services (non-Gov't)	20	21	16	19	23	21	18
Investment income (including interest)	5	19	6	3	3	4	1
Gifts and Donations	**17**	**20**	**26**	**25**	**16**	**8**	**4**
Individual donations	10	13	19	13	9	5	1
Fundraising organizations / family community foundations	1	1	2	1	2	1	0
Disbursements from other nonprofit organizations	2	4	2	2	2	1	1
Corporate sponsorships, donations or grants	3	3	3	8	2	1	1
Other Income	**4**	**8**	**7**	**3**	**4**	**3**	**2**

Share of Revenues by Source

Small and Medium organizations receive 56% of all government funding in the charitable and nonprofit sector (see Table 10). This is low compared to both the proportion of SMOs in the sector (99.6%) and the proportion of revenues accounted for by SMOs (69%). Large organizations, on the other hand, receive a disproportionately large share of government funding (44%).

While SMOs receive a relatively small share of government revenues, they receive a disproportionately high share of earned income (79%) and gifts and donations (91%).

Table 10: Distribution of revenues by revenue source, NSNVO 2003

	All SMOs	No paid staff	Micro	Very Small	Small	Medium	Large
Number of paid staff	0 – 499	0	1 – 4	5 – 19	20 – 99	100 – 499	500 +
	% of revenues received by organization size						
Total Revenues	69	6	9	14	18	22	31
Total Revenues from Government	56	2	6	9	15	24	44
Total Revenues from Earned Income	79	10	9	15	21	24	21
Total Revenues from Gifts and Donations	91	10	18	26	22	15	9[E]
Other Income	81	14	18	10	19	20	19

E = Use with caution

Revenue Dependency

If more than 50% of an organization's total revenue comes from one source (government, earned income, or gifts and donations), that organization can be considered dependent on that revenue source. SMOs are generally more likely to be dependent on earned income (46%) compared to Large organizations, the majority of which are government dependent (61%) (see Table 11).

SMOs of different sizes are very different in terms of their likelihood of depending on any given revenue source. The majority (55%) of organizations with no paid staff depend on earned income as their main revenue source. Micro organizations are most likely to depend on grants and donations (37%); Very Small organizations are most likely to depend on earned income (38%); while Small, Medium, and Large organizations are most likely to depend on government revenue (46%, 52% and 61% respectively).

Table 11: Revenue dependency, NSNVO 2003

	All SMOs	No paid staff	Micro	Very Small	Small	Medium	Large
Number of paid staff	0 – 499	0	1 – 4	5 – 19	20 – 99	100 – 499	500 +
	% of organizations						
Government Dependent	17	7	21	35	46	52	61
Earned Income Dependent	46	55	34	38	37	37	34
Gifts and Donations Dependent	26	25	37	18	9	6	2
Diverse	11	13	9	9	8	5	4
	100	100	100	100	100	100	100

Changes in Revenues

SMOs are most likely to report that their revenues were stable from 2000 to 2003 (42%). About a third of SMOs (36%) reported increasing revenues, while 22% reported declining revenues (see Table 12).

The proportion of organizations reporting increasing revenues rises consistently with organization size. The majority of organizations with five or more employees report increasing revenues. More than half (51%) of Very Small organizations, 60% of Small organizations and, most notably, 67% of Medium organizations report increasing revenues.

Compared to SMOs, Large organizations are much more likely to report increasing revenues (81%), and much less likely to report declining revenues (6%).

Table 12: Reported change in revenue over the past three years, NSNVO 2003

	All SMOs	No paid staff	Micro	Very Small	Small	Medium	Large
Number of paid staff	**0 – 499**	**0**	**1 – 4**	**5 – 19**	**20 – 99**	**100 – 499**	**500 +**
				% of organizations			
Increased	36	27	38	51	60	67	81
Stayed about the same	42	50	39	29	27	22	13
Decreased	22	23	23	20	14	12	6

Summary

SMOs account for the majority (69%) of revenues in the charitable and nonprofit sector. While the average income of SMOs is considerably lower than that of Large organizations, the sheer number of SMOs (99.6% of all organizations) dictates that they represent the majority of the revenues in the sector. Just as in the sector overall, revenues are highly concentrated among a small group of large SMOs.

SMOs exhibit a more entrepreneurial approach to operating their organizations than Large organizations. SMOs receive revenues from a variety of sources, they receive the largest proportion of their revenues from earned income and are less likely to be dependent on government revenue than Large organizations.

The analysis of financial resources by organization size also clearly illustrates the striking relationship between organization size and the proportion of revenues an organization receives from government sources. Generally, the larger the organization the more prominent government revenue is as a percentage of its total revenues. Conversely, gifts and donations (individual donations especially) decline in importance as organization size increases.

Human Resources

Many charitable and nonprofit organizations consider their human resources — both paid and volunteer — to be their greatest strength (Hall, Andrukow et al., 2003). In this section, we compare and contrast the human resources utilized by SMOs and Large organizations.

The Labour Pool

SMOs attract 97% of the volunteers in Canada. Volunteers most commonly volunteer with organizations that are Very Small (42% of all volunteers), have no paid staff (22%), or are Micro (19%). Very Small organizations also attract the largest proportion of total volunteer hours (31%).

The average SMO benefits from about 14,000 hours of volunteer activity per year. The amount of volunteer support received by SMOs varies considerably (see Table 13). Organizations with no paid staff receive about 5,000 hours of volunteer support per year, while those that are Small (20 to 99 paid staff) receive about 48,000 hours of volunteer support. In all cases, Large organizations benefit from significantly more volunteer support (151,680 hours per year) than SMOs. While Large organizations benefit from the most volunteer hours per year on average, Very Small organizations receive the most volunteer hours (732 million) in total. This is because Very Small organizations, on average, receive more than 35,000 volunteer hours annually and they account for 13% of all organizations compared to just 0.4% for Large organizations.

The number of volunteer hours contributed to an organization is driven by the number of volunteers it attracts and the number of hours each volunteer contributes. Large organizations have, on average, 935 volunteers who contribute an average of 162 hours each per year. The average SMO has 116 volunteers, each contributing an average of 121 hours per year.

Organizations that are Very Small receive the largest share of total volunteer hours (31%). This is largely the result of a very large pool of volunteers (388 per organization, on average).

Table 13: Volunteer support, NSNVO 2003

	All SMOs	No paid staff	Micro	Very Small	Small	Medium	Large
Number of paid staff	**0 – 499**	**0**	**1 – 4**	**5 – 19**	**20 – 99**	**100 – 499**	**500 +**
% of total organizations	99.6%	54%	26%	13%	5%	1%	0.4%
Mean number of volunteers	116	49	87	388	232	309	935
% of total volunteers	97%	22%	19%	42%	10%	4%	3%
Total volunteer Hours (millions of hours)	2,250	437	627	732	390	64	86
Mean hours	14,007	5,017	14,802	35,139	48,156	27,725	151,680
% of volunteer hours	96%	19%	27%	31%	17%	3%	4%

When it comes to paid staff, SMOs employ over one million paid staff, or 51% of all paid staff in the sector. SMOs also account for the majority of hours contributed by paid staff; over 1.5 billion hours (52% of the total) (see Table 16). This is, however, significantly lower than their proportion of organizations (99.6%). Large organizations, account for just 0.4% of total organizations and account for 48% of total paid staff hours worked.

There is a positive linear relationship between staff size and the proportion of paid staff hours accounted for by organizations. The larger the organization, the larger the proportion of paid staff hours they account for. This is driven by the huge discrepancy in the average number of paid staff employed by organizations of various sizes. On average, SMOs employ just 6 paid staff while Large organizations employ an average of 1,753 employees each.

Table 14: Paid staff support, NSNVO 2003

Number of paid staff	All SMOs 0 – 500	Micro 1 – 4	Very Small 5 – 19	Small 20 – 99	Medium 100 – 499	Large 500 +
% of total organizations	99.6	26%	13%	5%	1%	0.4%
Total Number of Employees	1,036,288	88,026	189,216	319,995	439,052	995,455[E]
Mean number of employees	6	2	9	39	191	1,753
% of total Employees	51%	4%	9%	16%	22%	49%
Total hours worked (millions of hours)	1,553	135	291	465	662	1,434[E]
Mean hours worked	9,667	3,195	13,959	57,354	288,057	2,525,825[E]
% of labour hours	52%	5%	10%	16%	22%	48%

E = Use with caution

In order to fully understand the total labour contributed to organizations, a variable that combines the total hours contributed by both volunteers and paid staff was created. This allows us to calculate the proportion of total human resources hours accounted for by organization size (see Table 15).

This analysis suggests that the distribution of total hours is similar to the distribution of revenues. For example, SMOs receive 69% of the total revenues in the sector and 71% of total hours contributed by both paid staff and volunteers. Similarly, Large organizations receive 31% of the revenues and 29% of the total hours contributed from both sources. In other words, revenues generated are generally proportional to the human resources available to organizations.

It is worth noting that organizations with no paid staff, Micro and Very Small organizations benefit from a higher proportion of total hours contributed, relative to the proportions of revenues they account for, while Small and Medium organizations receive a relatively smaller proportion.

Table 15: Hours contributed by organization size, NSNVO 2003

Number of paid staff	All SMOs 0 – 499	No paid staff 0	Micro 1 – 4	Very Small 5 – 19	Small 20 – 99	Medium 100 – 499	Large 500 +
% of total organizations	99.6%	54%	26%	13%	5%	1%	0.4%
% of total revenue	69%	6%	9%	14%	18%	22%	31%
Total hours volunteered & worked (millions of hours)	3,803	437	763	1,023	856	725	1,520[E]
% of total hours contributed	71%	8%	14%	19%	16%	14%	29%

E = Use with caution

Forty-one percent of all SMO labour hours are from paid staff and 59% are from volunteers. However, not all SMOs rely on volunteers for the majority of their human resources. Organizations with 20 or more paid staff receive the majority of their labour hours from paid staff rather than volunteers (see Table 16). For example, Small organizations receive 54% of their labour hours from paid staff.

Organizations that are Medium or Large rely on paid staff almost exclusively. Medium organizations receive 91% of their hours contributed from paid staff, while Large organizations receive 94%.

Table 16: Proportion of total hours contributed by volunteers & paid staff, NSNVO 2003

Number of paid staff	All SMOs 0 – 499	No paid staff 0	Micro 1 – 4	Very Small 5 – 19	Small 20 – 99	Medium 100 – 499	Large 500 +
% of total hours from paid staff	41%	0%	18%	28%	54%	91%	94%
% of total hours from volunteers	59%	100%	82%	72%	46%	9%	6%
% of total hours contributed	71%	8%	14%	19%	16%	14%	29%

Composition of Paid Staff

Small and Medium organizations employ more permanent than temporary staff, and more full-time than part time staff (see Table 17). Compared to Large organizations, SMOs are more likely to fill staff positions with full-time rather than part-time positions, but are less likely to have permanent staff. Micro organizations reported the highest proportion of staff positions filled with permanent employees (74%) and full-time employees (65%).

Table 17: Composition of paid staff, NSNVO 2003

Number of paid staff	All SMOs 0 – 500	Micro 1 – 4	Very Small 5 – 19	Small 20 – 99	Medium 100 – 499	Large 500 +
% permanent	60%	74%	66%	54%	59%	70%
% temporary	40%	26%	34%	46%	41%	30%
% full-time	60%	65%	64%	57%	59%	53%
% part-time	40%	35%	36%	43%	41%	47%

Changes in Paid Staff

SMOs are generally less likely to report increasing levels of paid staff (30%) compared to Large organizations (41%) and more likely to report stable levels of paid staff (59%) compared to Large organizations (34%) (see Table 18). These findings are largely influenced by Micro organizations, which represent more than half (57%) of all SMOs (with paid staff). Only 19% of Micro organizations reported increasing staff levels, while the majority (70%) reported stable staff levels. All other SMO segments were more likely (than Micro organizations) to report increasing rather than stable levels of paid staff. Small and Medium organizations were the most likely to report increasing staff levels (46% and 59% respectively).

Table 18: Reported changes in paid staff levels, NSNVO 2003

Number of paid staff	All SMOs 0 – 500	Micro 1 – 4	Very Small 5 – 19	Small 20 - 99	Medium 100 – 499	Large 500 +
	% of organizations reporting change					
Increased	30	19	41	46	59	41
Remained about the same	59	70	48	47	33	34
Decreased	10	11	11	7	8	24

Summary

SMOs account for the vast majority of volunteers (97%) and just over half (51%) of all paid staff in the charitable and nonprofit sector. SMOs rely on volunteer support to a much greater extent than Large organizations. When volunteer and paid staff hours are combined, we find that 59% of the labour hours contributed to SMOs are from volunteers compared to just 6% for Larger organizations.

In this section we also explored the proportion of total labour hours (volunteer and paid staff hours) contributed to organizations of different sizes. Here we discovered that the proportion of labour hours accounted for by organizations of different sizes closely resembles their relative proportion of revenues.

When it comes to the type of paid staff that SMOs hire, the data suggest that SMOs are more likely to hire full-time rather than part-time staff, and permanent rather than temporary staff. Compared to Large organizations, SMOs have a higher percentage of full-time paid staff, but a lower percentage of permanent staff.

Finally, with respect to changes in staff levels, the majority of SMOs reported stable staffing levels from 2000 to 2003, whereas Large organizations were most likely to report increasing staff levels. Among SMOs we see that the larger the organization, the more likely they are to report that their staff levels increased.

Capacity Challenges

The NSNVO asked respondents if a variety of financial, funding, human resources, demand, infrastructure and planning and development issues were not a problem, a small problem, a moderate problem, or a serious problem for their organization. In this section, we explore the capacity problems reported by organizations of various sizes. For simplicity, the data have been aggregated and presented as the percentage of organizations reporting each problem (i.e., the sum of organizations that reported a small, moderate or serious problem).

Financial Capacity

Organizations were asked if they had problems earning revenue, obtaining funding from other organizations or individuals or competing with other organizations for money. Organizations were also asked if they had a problem with increasing demands for their services or products.

SMOs with five or more employees are the most likely to report all financial capacity issues. More than half of these organizations report difficulties obtaining funding from other organizations, difficulties obtaining funding from individuals, and difficulties competing with other organizations. Difficulty earning revenues was also reported by almost half of Very Small (49%), Small (45%) and Medium (45%) organizations (see Table 19).

Organizations with no employees are least likely to report all financial capacity issues with the exception of difficulty earning revenues which is least likely to be reported by Large organizations (17% of Large organizations report this problem).

Difficulty obtaining funding from individuals is the most common financial capacity problem reported by organizations with no employees (42%), and Micro organizations (51%).

The most common problem reported by all other sizes of organizations is difficulty obtaining funding from other organizations. This is the only financial capacity issue reported by more than half of Large organizations.

Table 19: Financial capacity issues, NSNVO 2003

	All SMOs	No paid staff	Micro	Very Small	Small	Medium	Large
Number of paid staff	**0 – 499**	**0**	**1 – 4**	**5 – 19**	**20 – 99**	**100 – 499**	**500 +**
				% Experiencing each problem			
Difficulty Earning Revenues	42	40	41	49	45	45	17
Difficulty Obtaining Funding from Other Organizations	48	41	49	64	64	73	64
Difficulty Obtaining Funding from Individuals	48	42	51	61	56	60	40
Difficulty Competing with Other Organizations	43	37	44	56	55	63	40

External Funding

In addition to questions about financial capacity, organizations that reported receiving funding from other organizations in the past three years were asked a series of questions relating to external funding.

The majority of organizations that receive external funding report capacity issues related to this funding (see Table 20). Large organizations are generally more likely than SMOs to report capacity issues related to external funding. The only exception is that 61% of SMOs report problems with an over-reliance on project funding compared to 59% of Large organizations. Reductions in government funding are the most common capacity issue reported regardless of organization size, however, this issue is more commonly reported by Large organizations (89%) and Medium organizations (88%) that tend to rely more heavily on government funding than all SMOs. More than half of all organizations with five or more employees report all of the external funding capacity issues.

Table 20: External funding issues, NSNVO 2003

	All SMOs	No paid staff	Micro	Very Small	Small	Medium	Large
Number of paid staff	0 – 499	0	1 – 4	5 – 19	20 – 99	100 – 499	500 +
	% experiencing each problem						
Over-reliance on Project Funding	61	50	65	70	68	64	59
Unwillingness to Fund Core Operations	60	47	65	74	68	75	72
Need to Modify Programs	47	34	52	59	53	59	56
Reporting Requirements of Funders	43	29	49	51	52	62	54
Reductions in Government Funding	65	52	72	74	70	88	89

Note: These figures apply to the 39% of organizations that were incorporated, that had been active for at least three years, and that had received funding from government, foundations or corporations over that period.

Human Resources Capacity

Human resources, both paid and voluntary, are often regarded as the most valuable assets of charitable and nonprofit organizations. In this section we explore the human resources capacity challenges reported by organizations of various sizes. Specifically, the NSNVO asked organizations if they experienced issues with recruiting, training and retaining paid staff, volunteers and board members.

SMOs are more likely to report problems related to recruiting, training, and retaining volunteers than they are to report similar problems with paid staff. This is not surprising, considering that 59% of total hours contributed to SMOs are from volunteers. Large organizations, on the other hand, rely much more on paid staff (94% of total hours contributed), and therefore are more likely to report problems related to recruiting the right type of paid staff (77% report this problem), and difficulty providing staff training and development (reported by 50% of organizations) (see Table 21).

Organizations that are Very Small, Small and Medium are the most likely to report a wide range of human resources issues. The most common problems reported by organizations that are Very Small are: difficulties recruiting the right type of volunteers (66%), and obtaining board members (63%). The most common problem reported by Small and Medium organizations is; difficulties obtaining the right type of paid staff (65% and 72% respectively). Organizations with no paid staff report human resources capacity issues with less frequency than SMOs in general. The only issues reported by a majority of organizations with no paid staff are difficulty obtaining board members (52%) and difficulty recruiting the type of volunteers needed (52%).

Table 21: Human resources capacity issues, NSNVO 2003

	All SMOs	No paid staff	Micro	Very Small	Small	Medium	Large
Number of paid staff	**0 – 499**	**0**	**1 – 4**	**5 – 19**	**20 – 99**	**100 – 499**	**500 +**
	% experiencing each problem						
Difficulty Obtaining Type of Paid Staff	28	11	41	55	65	72	77
Difficulty Retaining Paid Staff	19	16	17	20	22	28	20
Difficulty Providing Staff Training and Development	27	12	39	50	53	57	50
Difficulty Obtaining Board Members	56	52	60	63	58	53	49
Difficulty Training Board Members	34	26	42	45	48	43	30
Difficulty Recruiting Type of Volunteers	57	52	64	66	61	60	47
Difficulty Retaining Volunteers	49	44	57	54	50	53	40
Lack of Paid Staff to Recruit or Manage Volunteers	35	22	45	54	56	46	47
Difficulty Providing Training for Volunteers	38	29	44	52	51	51	40

Demand, Infrastructure, Planning and Development Capacity

Planning for the future, adapting to and anticipating changes in the market are essential to the long-term survival or organizations. In this section, we examine the capacity challenges that organizations of various sizes face in the area of planning, infrastructure and development.

Compared to SMOs, Large organizations are more likely to report all capacity issues in this group with the exception of difficulty collaborating with other organizations, which was reported by 24% of SMOs and only 19% of Large organizations (see Table 22). Large organizations most commonly report increasing demand for services or products as a problem (63%), whereas SMOs most commonly reported difficulty planning for the future as a problem (58%).

Among SMOs, as size increases, the likelihood of reporting each capacity issue in this group increases. Medium organizations are more likely to report all capacity issues in this group than any other SMO segment. Medium organizations are also more likely to report all capacity issues than Large organizations. Similar to Large organizations, the most commonly reported capacity issue for Medium organizations is increasing demand for services or products.

Table 22: Demand, infrastructure, planning and development capacity issues, NSNVO 2003

	All SMOs	No paid staff	Micro	Very Small	Small	Medium	Large
Number of paid staff	**0 – 499**	**0**	**1 – 4**	**5 – 19**	**20 – 99**	**100 – 499**	**500 +**
	% experiencing problem						
Difficulty Planning for the Future	58	52	65	66	68	70	61
Difficulty Adapting to Change	41	33	49	52	52	66	62
Difficulty Participating in Policy Development	39	30	46	54	57	65	59
Lack of Internal Capacity	39	29	47	57	58	62	46
Difficulty Collaborating with Other Organizations	24	21	25	30	29	35	19
Increasing Demands for Services or Products	43	34	48	58	62	71	63

Summary

The NSNVO data on capacity challenges show that the frequency of reporting various capacity challenges varies with organization size. The top capacity challenges reported by SMOs are: difficulty planning for the future (58%), difficulty recruiting the right type of volunteers (57%), difficulty obtaining board members (56%), difficulty retaining volunteers (49%) and difficulty obtaining funding from other organizations or from individuals (48% each). In contrast, the top capacity challenges reported by Large organizations are: difficulty obtaining the right type of paid staff (77%), difficulty obtaining funding from other organizations (64%), increasing demands for services or products (63%), difficulty adapting to change (62%) and difficulty planning for the future (61%).

With the exception of difficulty obtaining funding from other organizations, SMOs report financial capacity challenges more frequently than Large organizations. Large organizations, however, report external funding issues, with the exception of over-reliance on project funding, more frequently than SMOs. This is likely because large organizations tend to be much more dependent on external funding than SMOs.

When it comes to human resources capacity challenges, SMOs are more likely to report problems obtaining board members, difficulty recruiting the right type of volunteers and difficulty retaining volunteers compared to Large organizations. In contrast, Large organizations are more likely to report problems obtaining and training paid staff and a lack of paid staff to recruit, train and manage volunteers.

Large organizations are more likely to report most demand, infrastructure, planning and development capacity issues. The only issue in this category reported by a majority of both SMOs and large organizations is difficulty planning for the future.

It is important to note that SMOs with five or more employees are generally much more likely to report all types of capacity issues. Especially with respect to demand, infrastructure, planning and development capacity issues, Medium organizations most commonly report all of these capacity issues

Summary

The vast majority of charitable and nonprofit organizations (99.6%) in Canada are SMOs. SMOs also account for the majority of the revenue, employees and volunteers in the charitable and nonprofit sector. The NSNVO data demonstrate that SMOs make a significant social and economic contribution to the sector and engage millions of Canadians in their work.

The NSNVO data also demonstrate the unique character of SMOs. SMOs are more likely to serve local areas, and they are more likely to be Sports and Recreation organizations, Religious organizations, Social Services organizations, or organizations that promote volunteerism. SMOs are also likely to have been in operation for a shorter period of time than Large organizations. While SMOs are quite distinct from Large organizations, they are by no means a homogeneous group of organizations. The characteristics of SMOs vary widely from the distinctive group of organizations with no paid staff at one extreme to the equally distinctive group of Medium organizations with 100 to 499 employees at the other.

Just as in the sector overall, revenues are highly concentrated among a small group of large SMOs, while the majority of SMOs operate with very modest budgets. Whereas Large organizations receive most of their funding from government sources, SMOs receive revenues from a variety of sources. The largest proportion of their revenues come from earned income. The analysis of financial resources by organization size also clearly illustrates the striking pattern between organization size and the proportion of revenues an organization receives from government sources. Generally, the larger the organization the more prominent government revenue is as a percentage of its total revenues. Conversely, gifts and donations (especially individual donations) decline in importance as organizations size increases.

When it comes to human resources, SMOs rely on volunteer support to a much greater extent than Large organizations. When volunteer and paid staff hours are combined, we find that 59% of the labour hours contributed to SMOs are from volunteers compared to just 6% for Larger organizations. While they depend less on paid staff, compared to Large organizations, SMOs employ a higher percentage of full-time paid staff rather than part-time paid staff, but a lower percentage of permanent paid staff. Compared to Large organizations, SMOs were less likely to report increasing staff levels from 2000 to 2003. Larger SMOs, were however, more likely than smaller SMOs to report growing staff levels.

The NSNVO data on capacity challenges show that the frequency of reporting various capacity challenges varies with organization size. The top capacity challenges reported by SMOs are: difficulty planning for the future (58%), difficulty recruiting the right type of volunteers (57%), difficulty obtaining board members (56%), difficulty retaining volunteers (49%) and difficulty obtaining funding from other organizations or from individuals (48% each). In contrast, the top capacity challenges reported by Large organizations are: difficulty obtaining the right type of paid staff (77%), difficulty obtaining funding from other organizations (64%), increasing demands for services or products (63%), difficulty adapting to change (62%) and difficulty planning for the future (61%).

It is important to note that SMOs with five or more employees are generally much more likely to report all types of capacity issues. Especially with respect to demand, infrastructure, planning and development capacity issues, Medium organizations most commonly report all of these capacity issues.

Findings from an Analysis of Canada Revenue Agency Charitable Information Returns (T3010)

Federally registered charities are regulated by the Canada Revenue Agency (CRA) because they are exempt from income tax and are able to provide tax receipts to donors so that they may obtain tax relief. To demonstrate compliance with federal tax laws, registered charities must file a *Registered Charity Information Return* (T3010) with the CRA each year.

The data available from T3010 returns include: revenues, expenses and number of paid staff. These data allow us to categorize registered charities by size (number of employees), to examine both average and combined revenues of organizations by size, and finally to construct a longitudinal database to observe changes in organizational sizes and revenues over time.

In order to begin the inquiry into organizational transformations, we constructed a longitudinal database (1998 to 2002) of organizations from Canada Revenue Agency T3010 filings. These data allow us to begin a preliminary analysis of how organizations change over time. Here we investigate the churn rate[9] of registered charities and the likelihood that organizations will grow or contract (in terms of numbers of paid staff) over time. Finally, because the data could be mapped over several years, some interesting trends emerged. These are discussed at the end of this section.

Size of Organizations

The Canada Revenue Agency (CRA) T3010 data suggest that the distribution of registered charities is similar to the distribution of charitable and nonprofit organizations in general. That is, about 98% of all registered charities are SMOs, 43% have no paid staff, 33% to 35% are Micro, 14% are Very Small, 5% to 6% are Small, 2% are Medium and only 1% are Large (see Table 23).

A longitudinal analysis of the data shows that the distribution of organizations by number of employees is very consistent over time.

[9] The churn rate is calculated by summing the number of newly reporting organizations each year and the number of organizations that stop reporting divided by the total number of organizations in a given year.

Table 23: Distribution of registered charities by size of organization, T3010 data

	1998	1999	2000	2001	2002
	% of Organizations				
All SMOs	**98%**	**98%**	**98%**	**98%**	**98%**
No paid staff	43%	43%	43%	43%	43%
Micro	35%	34%	34%	33%	33%
Very small	14%	14%	14%	14%	14%
Small	5%	5%	5%	5%	6%
Medium	1%	2%	2%	2%	2%
Large	1%	1%	1%	1%	1%
Unknown*	1%	1%	1%	1%	1%

* Organizations that failed to report number of employees

Churn Analysis

Every year a large group of charitable organizations file a T3010 Information Return for the first time and others stop filing. A charity may begin filing for several reasons: i) it is a newly registered charity, ii) it existed previously, but did not file a T3010, or iii) it merged with another organization and began filing under a new charitable number. A charity may also stop filing due to a number of reasons: i) the organization has ceased operations, ii) the organization has temporarily stopped reporting, or iii) the organization has merged with another organization and no longer operates under its previous charitable number.

Although we cannot determine the reason why a charity starts or stops filing a T3010, we can use these starts and stops as a crude estimate of the number of organizational births and deaths each year. By summing the number of organizational births and deaths, we arrive at the total number of organizations churning in and out of the sector each year.

Number of Organizations Churning Each Year

On average, 2,737 charities file a T3010 return for the first time each year. These newly filing organizations represent an increase of about 3.6% to the existing base of registered charities. At the same time, about 1,660 charities (about 2.2% of charities) stop filing in an average year. Taken together, there are about 4,399 organizations (5.9% of all organizations) churning each year (see Table 24).

As the number of newly reporting organizations exceeded the number of organizations that stopped reporting each year, the total number of registered charities increased in each of the years included in this analysis. The annual data show that the churn rate has been relatively stable over the four transition years from 1998 to 2002, ranging from 5.3% to 6.4% of organizations.

An average of 3,155 charities or 4.2% of all charities expand to a larger size segment each year, while 2,379 or 3.2%, contract to a smaller size segment. In each of the years included in the study, the number of expanding charities exceeded the number of contracting charities, indicating that this period was likely one of overall expansion for charities. When the number of expanding and contracting charities is combined, we find that a total of 5,534 charities (7.4% of all charities), on average, transition from one size segment to another each year. By adding the number of organizations that are churning, we find that there are approximately 9,933 charities (13.2%) in some type of transitory state each year.

Table 24: Total churn by year, T3010 data

	98 to 99	99 to 00	00 to 01	01 to 02	Average
Number of organizations at the start of period	73,467	74,739	75,832	76,721	75,190
Number of organizations that start reporting	3,001	2,684	2,443	2,818	2,737
Organizations that stop reporting	1,729	1,591	1,554	1,776	1,663
Number of organizations at the end of the period	74,739	75,832	76,721	77,763	76,264
Number of organizations churning	4,730	4,275	3,997	4,594	4,399
Churn rate	6.4%	5.7%	5.3%	5.7%	5.9%
Organizations expanding	3,174	3,136	3,130	3,181	3,155
% Expanding	4.3%	4.2%	4.1%	4.1%	4.2%
Organizations contracting	2,356	2,331	2,461	2,368	2,379
% Contracting	3.2%	3.1%	3.2%	3.1%	3.2%
Total organizations expanding and contracting	5,530	5,467	5,591	5,549	5,534
% of organizations expanding and contracting	7.5%	7.3%	7.4%	7.2%	7.4%
Total organizations in transition[10]	10,260	9,742	9,588	10,143	9,933
% of organizations in transition	14.0%	13.0%	12.6%	13.2%	13.2%

Notes:

1) Only organizations with complete T3010 returns are reported. Organizations with incomplete or inaccurate returns were excluded from this analysis.

2) Organizations in transition include those that are expanding, contracting, newly reporting, or those that stop reporting in any given year.

Churn by Organization Size

An analysis of the churn rate by organization size shows that organizations with no paid staff experience two to three times the churn rate of other SMOs (see Table 25). The average churn rate for organizations with no paid staff was 9% for the years 1998 to 2002, while larger SMOs (20 or more employees) experienced churn rates in the range of 2% to 4% per year.

The vast majority (88% on average) of the total churn in the charitable and nonprofit sector is among organizations with fewer than five paid staff.

For the most part, the data are quite static over time, showing stable churn rates for organizations of all sizes for most years. The notable exceptions are the churn rates for both Medium and Large organizations, which were unusually high from 1998 to 1999.

[10] Organizations in transition include those that are expanding, contracting, newly reporting, or those that stop reporting in any given year.

Table 25: Percentage of organizations churning by size of organization, T3010 data

	1998 to 1999	1999 to 2000	2000 to 2001	2001 to 2002	Average
No Paid Staff					
Total organizations churning	3,036	2,814	2,574	2,823	2,812
Churn Rate	10%	9%	8%	9%	9%
MICRO (1 to 4 paid staff)					
Total organizations churning	1,073	972	993	1,187	1,056
Churn Rate	4%	4%	4%	5%	4%
Very Small (5 to 19 paid staff)					
Total organizations churning	339	302	255	363	315
Churn Rate	3%	3%	2%	3%	3%
Small (20 to 99 paid staff)					
Total organizations churning	104	92	81	93	93
Churn rate	3%	2%	2%	2%	2%
Medium (100 to 499 paid staff)					
Total organizations churning	62	24	30	50	42
Churn rate	6%	2%	2%	4%	4%
Large					
Total organizations churning	57	17	22	30	32
Churn rate	12%	3%	4%	5%	6%

Newly Reporting Organizations Each Year

Most newly reporting organizations have no paid staff (61% on average) and 26% have fewer than 5 paid staff (see Table 26). This suggests that most registered charities (87%) begin their operations with very few paid staff.

Eight percent of organizations report having 5 to 19 paid staff during the year that they file their first T3010; 2% of organizations report 20 to 99 paid staff; 1% report 100 to 499 paid staff; and finally 1% report more than 500 paid staff on their first T3010.

Table 26: Percentage of newly reporting organizations by year, T3010 data

	1998	1999	2000	2001	2002	Average
No paid staff	57%	63%	63%	63%	60%	61%
Micro	27%	24%	25%	26%	28%	26%
Very Small	9%	7%	8%	7%	8%	8%
Small	3%	2%	2%	2%	2%	2%
Medium	1%	1%	0%	0%	1%	1%
Large	1%	1%	0%	0%	1%	1%
Unknown	1%	1%	1%	1%	1%	1%

Organizations that Stop Reporting Each Year

The majority of organizations that stop filing their T3010s (65%) are organizations with no paid staff, and 22% are organizations with 1 to 4 paid staff (see Table 27). Similar to the data on newly reporting organizations, only 5% of SMOs that stop reporting in any given year have 20 or more paid staff.

Table 27: Percentage of organizations that stop reporting in any given year, T3010 data

	1998	1999	2000	2001	2002	Average
No paid staff	61%	66%	70%	66%	63%	65%
Micro	20%	20%	19%	23%	24%	22%
Very Small	6%	7%	6%	6%	7%	7%
Small	5%	2%	2%	2%	2%	3%
Medium	4%	2%	1%	1%	1%	2%
Large	3%	1%	0%	1%	1%	1%
Unknown	0%	1%	1%	1%	1%	1%

Summary

On average, about 5.9% of organizations churn each year in the charitable and nonprofit sector. About two-thirds of this churn is due to newly reporting organizations, and one-third is organizations that stop reporting. Most churning occurs among organizations with no paid staff or those with only 1 to 4 paid staff.

In addition to organizations that are churning, an additional 4.2% of organizations report an expansion (to a larger size segment) and 3.2% report a contraction to a smaller size segment. Taken together, there are almost 10,000 charities (13.2% of all charities) in some form of transition each year.

Organizations with fewer than 5 paid staff are responsible for the majority of both newly reporting organizations and organizations that stop reporting. These findings suggest that most organizations begin their operations with very few (if any) paid staff, and that most organizations that stop reporting also have fewer than 5 paid staff.

Life Cycle Analysis

In this section, we summarize the annual transitions of organizations from 1998 to 2002. For this analysis, transitions were recorded over a five year period for all organizations that filed a T3010 information return with the Canada Revenue Agency. For each year, we noted the organization size in the preceding year and the organization size in the current year to determine if an organization had: grown to a larger size segment; remained stable; declined to a smaller size segment; failed to submit a T3010 information return; or reported a T3010 for the first time.

Table 28 below provides a summary of the average movement of organizations of various sizes. This macro summary is supported by more detailed summaries of organizations in each size segment.

The four years of transition data revealed that, on average, most organizations (84% to 91%) remained stable from year to year (see Table 28). Organizations with no paid staff were most likely to remain stable (91% on average), while large organizations were the least stable (84%).

Organizations with no paid staff had the highest percentage of newly reporting organizations (5%) and tied with Large organizations with the highest percentage that stopped reporting each year (3%). In other words, this segment appears to be the most common point of entry, and along with Large organizations, the most common exit point for charitable organizations.

The number of organizations with no paid staff grew each year, on average, by about 10%. Half of this growth was from newly reporting organizations and half was from movement into this category. This growth was offset by a 9% decline in the number of organizations with no paid staff, due to movement out of the category (6%) and organizations that stopped reporting (3%).

All other size segments reported an expanding number of organizations from 1998 to 2002. For example, the number of medium-sized organizations grew each year, on average, by about 15%. Most (13%) of this growth is the result of movement into the size segment and 2% from newly reporting organizations. On average, only 8% of medium-sized organizations transitioned to another size segment, and 2% stopped reporting each year, for a 10% reduction in the number of medium-sized organizations each year.

Table 28: Summary of transitions, all organization sizes, T3010 data - 1998 to 2002

	1998 to 2002 Averages					
	No paid staff	**Micro**	**Very small**	**Small**	**Medium**	**Large**
Number of paid staff	**0**	**1 – 4**	**5 – 19**	**20 – 99**	**100 – 499**	**500 +**
Newly reporting organizations	5%	**3%**	**2%**	**2%**	**2%**	**3%**
Organizations remained stable	**91%**	**88%**	**85%**	**88%**	**89%**	**84%**
Organizations that downsized into the category	4%	3%	2%	1%	1%	na
Organizations that grew into the category	na	5%	12%	13%	10%	14%
Erroneous movement into the category	1%	2%	2%	2%	2%	2%
Net movement into the category	**5%**	**10%**	**16%**	**16%**	**13%**	**16%**
Organizations that downsized out of the category	na	4%	9%	7%	5%	11%
Organizations that grew out of the category	5%	5%	4%	2%	2%	na
Erroneous movement out of the category	1%	2%	2%	1%	1%	2%
Net movement out of the category	**6%**	**11%**	**15%**	**10%**	**8%**	**13%**
Organizations that stopped reporting	**3%**	**1%**	**1%**	**1%**	**2%**	**3%**

**All data are compared to the number of organizations that started in the category in the preceding year. Therefore, percentages will add to greater than 100%.*

Organizations with No Paid Staff

Of the organizations that had no paid staff during the period from 1998 to 2002, an average of 91% continued their operations with no paid staff each year. In other words, it is quite uncommon for an organization with no paid staff to transition to an operation with employees (see Table 29).

Of those organizations that do eventually hire staff (5% per year), most (4%) become Micro organizations with 1 to 4 staff members, and only 1% move from zero paid staff to having more than 4 employees.

Each year, the number of organizations with no paid staff grows by about 4% as larger organizations, mostly those with 1 to 4 paid staff, downsize and operate strictly with volunteer support.

The number of organizations with no paid staff also grows by about 5% each year as a result of newly reporting organizations, which exceeds the 3% of organizations in this segment which stop reporting each year.

Table 29: Transitions of organizations with no paid staff, T3010 data - 1998 to 2002

	98 to 99	99 to 00	00 to 01	01 to 02	Total (1998 to 2002)
Newly Reporting Organizations	**6%**	**5%**	**5%**	**5%**	**5%**
Organizations remained stable	**90%**	**91%**	**91%**	**91%**	**91%**
Organizations that downsized into the category	**4%**	**4%**	**4%**	**4%**	**4%**
Micro to No paid staff	*4%*	*4%*	*3%*	*3%*	*3%*
Very small to No paid staff	*0%*	*0%*	*0%*	*0%*	*0%*
Small to No paid staff	*0%*	*0%*	*0%*	*0%*	*0%*
Medium to No paid staff	*0%*	*0%*	*0%*	*0%*	*0%*
Large to No paid staff	*0%*	*0%*	*0%*	*0%*	*0%*
Erroneous movement into the category	**1%**	**1%**	**1%**	**1%**	**1%**
Organizations that grew out of the category	**5%**	**4%**	**4%**	**4%**	**5%**
No paid staff to Micro	*4%*	*4%*	*4%*	*4%*	*4%*
No paid staff to Very small	*0%*	*0%*	*0%*	*0%*	*0%*
No paid staff to Small	*0%*	*0%*	*0%*	*0%*	*0%*
No paid staff to Medium	*0%*	*0%*	*0%*	*0%*	*0%*
No paid staff to Large	*0%*	*0%*	*0%*	*0%*	*0%*
Erroneous movement out of the category	**2%**	**1%**	**1%**	**1%**	**1%**
Organizations that stopped reporting	**4%**	**3%**	**3%**	**3%**	**3%**

**All data are compared to the number of organizations that started in the category in the preceding year. Therefore, percentages will add to greater than 100%.*

Micro Organizations

Similar to organizations with no paid staff, the majority of Micro organizations (88%) remain in this segment each year (see

Table 30).

The number of Micro organizations grows each year by 5% due to organizations with no paid staff that expand by hiring 1 to 4 staff members, by another 3% as the result of organizations that downsized into this segment and finally by 3% due to newly reporting organizations that start in the Micro segment.

Each year about 4% of Micro organizations downsize to organizations with no paid staff, 5% expand to become larger organizations, and 1% of Micro organizations stop reporting.

Of those organizations that grow out of the micro segment, almost all expand into the next size category (Very Small), employing 5 to 19 paid staff.

Table 30: Transitions of Micro organizations, T3010 data - 1998 to 2002

	98 to 99	99 to 00	00 to 01	01 to 02	Total (1998 to 2002)
Newly reporting organizations	**3%**	**3%**	**2%**	**3%**	**3%**
Organizations remained stable	**87%**	**88%**	**88%**	**88%**	**88%**
Organizations downsized into the category	**3%**	**3%**	**4%**	**4%**	**3%**
Very small to Micro	*3%*	*3%*	*3%*	*3%*	*3%*
Small to Micro	*0%*	*0%*	*0%*	*0%*	*0%*
Medium to Micro	*0%*	*0%*	*0%*	*0%*	*0%*
Large to Micro	*0%*	*0%*	*0%*	*0%*	*0%*
Organizations that grew into the category	**5%**	**5%**	**5%**	**5%**	**5%**
Erroneous movement into the category	**2%**	**2%**	**2%**	**2%**	**2%**
Organizations that downsized out of the category	**5%**	**4%**	**4%**	**4%**	**4%**
Organizations that grew out of the category	**5%**	**5%**	**5%**	**5%**	**5%**
Micro to Very small	*4%*	*4%*	*5%*	*4%*	*4%*
Micro to Small	*0%*	*0%*	*0%*	*0%*	*0%*
Micro to Medium	*0%*	*0%*	*0%*	*0%*	*0%*
Micro to Large	*0%*	*0%*	*0%*	*0%*	*0%*
Erroneous movement out of the category	**2%**	**2%**	**2%**	**2%**	**2%**
Organizations that stopped reporting	**1%**	**1%**	**1%**	**2%**	**1%**

**All data are compared to the number of organizations that started in the category in the preceding year. Therefore, percentages will add to greater than 100%.*

Very Small Organizations

The number of organizations that are considered Very Small (5 to 19 employees) grew by 12% from expanding organizations, 2% from contracting organizations and an additional 2% from newly reporting organizations (average from 1998 to 2002) (see

Table 31).

About 4% of Very Small organizations expand to larger segments, 9% downsize to smaller segments and 1% stop reporting each year.

Like other segments, most organizations (85%) that are Very Small remain stable from one year to the next.

Table 31: Transitions of Very Small organizations, T3010 data - 1998 to 2002

	98 to 99	99 to 00	00 to 01	01 to 02	Total (1998 to 2002)
Newly reporting organizations	**2%**	**2%**	**2%**	**2%**	**2%**
Organizations remained stable	**84%**	**85%**	**85%**	**85%**	**85%**
Organizations downsized into the category	***2%***	***2%***	***2%***	***2%***	***2%***
Small to Very small	2%	2%	2%	2%	2%
Medium to Very small	0%	0%	0%	0%	0%
Large to Very small	0%	0%	0%	0%	0%
Organizations that grew into the category	**12%**	**12%**	**12%**	**11%**	**12%**
No paid staff to Very small	*1%*	*1%*	*1%*	*1%*	*1%*
Micro to Very small	*11%*	*11%*	*11%*	*10%*	*11%*
Erroneous movement into the category	**2%**	**2%**	**2%**	**2%**	**2%**
Organizations that downsized out of the category	**9%**	**8%**	**9%**	**8%**	**9%**
Very small to No paid staff	*1%*	*1%*	*1%*	*1%*	*1%*
Very small to Micro	*8%*	*7%*	*8%*	*8%*	*8%*
Organizations that grew out of the category	**4%**	**4%**	**3%**	**4%**	**4%**
Very small to Small	*4%*	*4%*	*3%*	*4%*	*4%*
Very small to Medium	*0%*	*0%*	*0%*	*0%*	*0%*
Very small to Large	*0%*	*0%*	*0%*	*0%*	*0%*
Erroneous movement out of the category	**2%**	**2%**	**2%**	**2%**	**2%**
Organizations that stopped reporting	**1%**	**1%**	**1%**	**1%**	**1%**

**All data are compared to the number of organizations that started in the category in the preceding year. Therefore, percentages will add to greater than 100%.*

Small Organizations

The number of Small organizations typically grows by 13% each year from expanding organizations, 1% from organizations that downsize and 2% from newly reporting organizations (see

Table 31).

Organizations that leave this segment are most likely to downsize to a smaller segment (7% of organizations), while only 2% expand to become larger organizations and 1% stop reporting each year.

Table 32: Transitions of Small organizations, T3010 data - 1998 to 2002

	98 to 99	99 to 00	00 to 01	01 to 02	Total (1998 to 2002)
Newly reporting organizations	**2%**	**2%**	**1%**	**1%**	**2%**
Organizations remained stable	**88%**	**88%**	**87%**	**88%**	**88%**
Organizations downsized into the category	**1%**	**1%**	**1%**	**1%**	**1%**
Medium to Small	*1%*	*1%*	*1%*	*1%*	*1%*
Large to Small	*0%*	*0%*	*0%*	*0%*	*0%*
Organizations that grew into the category	**13%**	**13%**	**11%**	**13%**	**13%**
No paid staff to Small	*2%*	*1%*	*1%*	*1%*	*1%*
Micro to Small	*1%*	*1%*	*1%*	*1%*	*1%*
Very small to Small	*11%*	*10%*	*9%*	*11%*	*10%*
Erroneous movement into the category	**2%**	**2%**	**2%**	**2%**	**2%**
Organizations that downsized out of the category	**7%**	**7%**	**8%**	**7%**	**7%**
Small to No paid staff	*1%*	*1%*	*1%*	*0%*	*1%*
Small to Micro	*1%*	*1%*	*1%*	*1%*	*1%*
Small to Very small	*5%*	*5%*	*6%*	*5%*	*5%*
Organizations that grew out of the category	**2%**	**3%**	**2%**	**2%**	**2%**
Small to Medium	*2%*	*2%*	*2%*	*2%*	*2%*
Small to Large	*0%*	*0%*	*0%*	*0%*	*0%*
Erroneous movement out of the category	**2%**	**2%**	**2%**	**2%**	**2%**
Organizations that stopped reporting	**1%**	**1%**	**1%**	**1%**	**1%**

**All data are compared to the number of organizations that started in the category in the preceding year. Therefore, percentages will add to greater than 100%.*

Medium Organizations

The number of Medium organizations grows by an average of 10% each year from expanding organizations, 2% from newly reporting organizations and 1% from large organizations that downsized (see

Table 33).

About 5% of Medium organizations downsize to a smaller segment each year, 2% expand to become large organizations and 2% stop reporting each year.

An important trend to note is the declining number of organizations that grew into this segment (11% in 98/99 down to 9% in 01/02) and the rising number of organizations that downsized out of the category (4% in 98/99 up to 6% in 01/02).

Table 33: Transitions of Medium organizations, T3010 data - 1998 to 2002

	98 to 99	99 to 00	00 to 01	01 to 02	Total (1998 to 2002)
Newly reporting organizations	**3%**	**1%**	**1%**	**2%**	**2%**
Organizations remained stable	**89%**	**90%**	**89%**	**89%**	**89%**
Organizations downsized into the category	**1%**	**1%**	**1%**	**1%**	**1%**
Organizations that grew into the category	**11%**	**11%**	**9%**	**9%**	**10%**
No paid staff to Medium	*3%*	*1%*	*1%*	*1%*	*2%*
Micro to Medium	*1%*	*1%*	*1%*	*1%*	*1%*
Very small to Medium	*1%*	*1%*	*0%*	*1%*	*1%*
Small to Medium	*7%*	*8%*	*7%*	*6%*	*7%*
Erroneous movement into the category	**2%**	**2%**	**2%**	**2%**	**2%**
Organizations that downsized out of the category	**4%**	**5%**	**5%**	**6%**	**5%**
Medium to No paid staff	*1%*	*1%*	*1%*	*1%*	*1%*
Medium to Micro	*1%*	*1%*	*1%*	*1%*	*1%*
Medium to Very small	*0%*	*0%*	*0%*	*1%*	*0%*
Medium to Small	*2%*	*3%*	*3%*	*4%*	*3%*
Organizations that grew out of the category	**2%**	**2%**	**2%**	**2%**	**2%**
Erroneous movement out of the category	**2%**	**2%**	**2%**	**1%**	**2%**
Organizations that stopped reporting	**3%**	**1%**	**2%**	**2%**	**2%**

**All data are compared to the number of organizations that started in the category in the preceding year. Therefore, percentages will add to greater than 100%.*

Large Organizations

The number of Large organizations grows by an average of 14% each year from expanding organizations and 3% from newly reporting organizations that report having at least 500 employees on their first T3010 filing (see Table 34).

About 11% of Large organizations downsize each year. Most become Micro organizations, or organizations with no paid staff. An additional 3% of Large organizations stop reporting each year.

Similar to Medium-sized organizations, we see fewer organizations growing into this category (17% in 98/99 down to 13% in 01/02); however, we also see a decline in the percentage of organizations that downsize out of this category (13% in 98/99 down to 11% in 01/02).

Unlike other size segments, Large organizations are much more likely to make very sizeable transitions from one year to the next. For example, half of all organizations that expanded into the large segment had previously had fewer than 5 employees, while less than a third came from Medium organizations. Similarly, large organizations that downsize are more likely to become organizations with fewer than 20 employees than they are to become medium-sized organizations.

Large organizations are the least stable from year to year. In an average year, only 84% of organizations remain Large.

It is not evident from the data why these significant transitions occur among large organizations. Due to the smaller base of large organizations, however, some of these findings may be partially explained by poor data quality.

Table 34: Transitions of Large organizations, T3010 data - 1998 to 2002

	98 to 99	99 to 00	00 to 01	01 to 02	Total (1998 to 2002)
Newly reporting organizations	**7%**	**2%**	**2%**	**3%**	**3%**
Organizations remained stable	**79%**	**85%**	**87%**	**85%**	**84%**
Organizations that grew into the category	**17%**	**14%**	**14%**	**13%**	**14%**
No paid staff to Large	*7%*	*4%*	*5%*	*5%*	*5%*
Micro to Large	*4%*	*3%*	*2%*	*2%*	*3%*
Very small to Large	*1%*	*1%*	*1%*	*1%*	*1%*
Small to Large	*0%*	*1%*	*1%*	*0%*	*1%*
Medium to Large	*5%*	*5%*	*4%*	*3%*	*4%*
Erroneous movement into the category	**2%**	**4%**	**2%**	**2%**	**3%**
Organizations that downsized out of the category	**13%**	**11%**	**9%**	**11%**	**11%**
Large to No paid staff	*3%*	*4%*	*2%*	*3%*	*3%*
Large to Micro	*6%*	*3%*	*3%*	*3%*	*4%*
Large to Very small	*2%*	*1%*	*0%*	*1%*	*1%*
Large to Small	*0%*	*0%*	*0%*	*1%*	*0%*
Large to Medium	*2%*	*3%*	*3%*	*3%*	*3%*
Erroneous movement out of the category	**3%**	**3%**	**2%**	**2%**	**3%**
Organizations that stopped reporting	**5%**	**1%**	**2%**	**3%**	**3%**

**All data are compared to the number of organizations that started in the category in the preceding year. Therefore, percentages will add to greater than 100%.*

Summary

Regardless of organization size, most organizations do not transition from their current size segment in any given year. Organizations with no paid staff are the most stable, with 91% reporting that they did not change size segments in any given year. Large organizations are the least stable, with only 84% of organizations (on average) reporting that they did not change size segments.

The life cycle analysis of registered charities indicates that there is significant movement or shifting of organizations from various size segments each year. Most of this shifting occurs between adjacent size ranges. That is, organizations that are small are most likely to either shift down one category to become very small, or expand one category to become medium-sized.

Organizations are not as likely to jump by more than one size segment. Large organizations are the exception, and are more likely than other organizations to make significant size transitions.

Generally, more organizations start reporting each year than stop reporting. Therefore, we witnessed a growing number of charitable organizations in Canada from 1998 to 2002.

The life cycle data also indicate that the number of organizations that expanded from 1998 to 2002 exceeded the number that contracted (as measured by movement in the size segments). This suggests that there may have been a general expansion of organizations during this time period. [11]

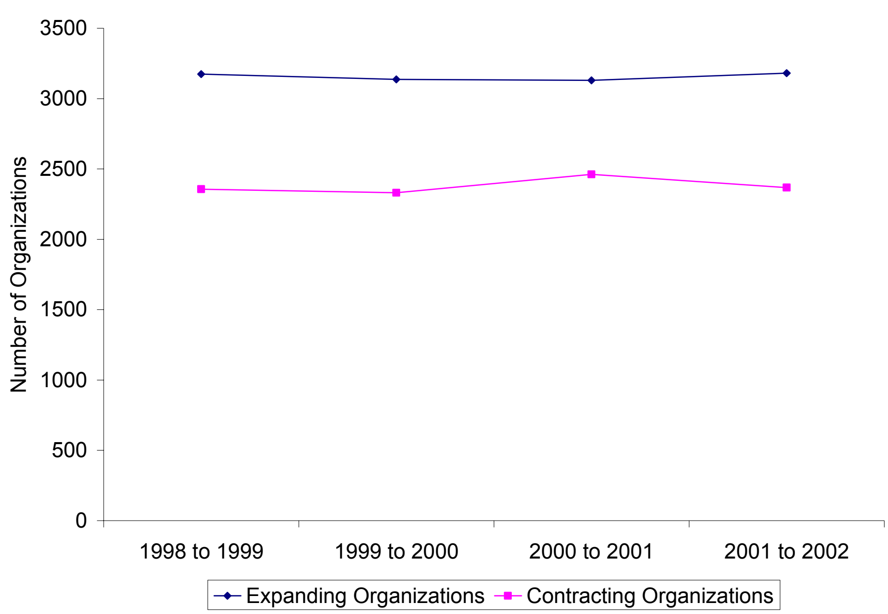
Trends

With a longitudinal database constructed, we were able to explore patterns in the annual growth and contraction of charities over time, the annual revenue growth by organization size and the trends in revenue concentration over time.

Growth and Contraction of Registered Charities

Figure 2 suggests that the number of organization reporting growth to a larger size segment remained fairly flat from 1998 to 2002 at almost 3,200 each year. The number of organizations reporting a contraction to a smaller size segment also remained fairly stable at 2,300 per year. As the number of organizations reporting expansion exceeds the number reporting contraction in any given year, the period under observation appears to have been one of modest but consistent growth for the sector. It is important to recall that only about 4.2% of charities report expansion in any given year, which is offset by the 3.2% that decline each year.

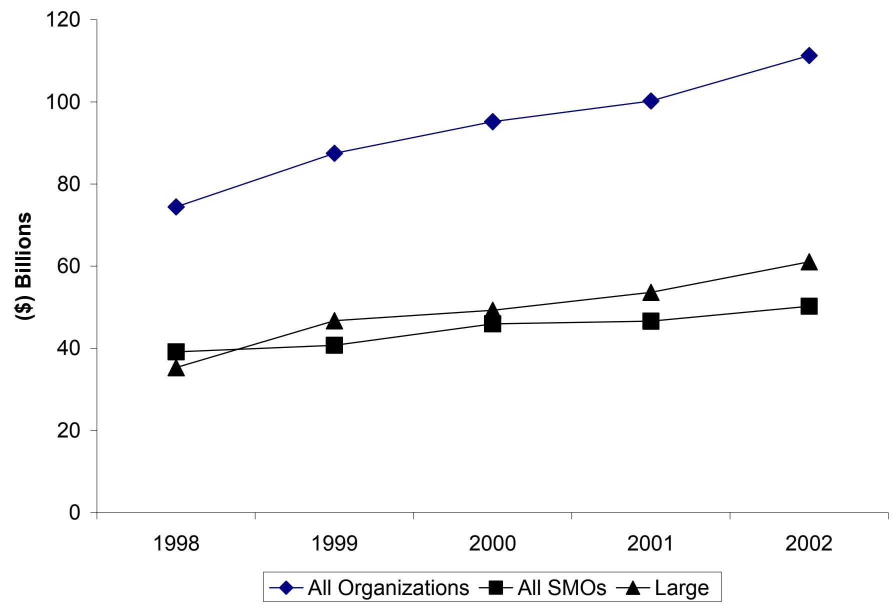
Figure 2: Number of organizations reporting expansion and contraction, T3010 data



Revenue Trends

Steady growth in the total revenues of charities supports the notion of an expanding charitable sector in Canada. Figure 3 below illustrates the consistent growth in total revenues for charitable organizations in Canada from 1998 to 2002. This figure also shows that the total revenues of Large charities have been growing faster than the total revenues of SMOs.

Figure 3: Calculated total annual revenues, T3010 data



Revenue Concentration Over Time

Large charitable organizations have grown their share of revenues from 46% of total charitable revenues in 1998 to 55% in 2002 (see Figure 4). Consequently, the share of total revenue accounted for by SMOs declined from 54% in 1998 to 45% in 2002.

It is difficult to draw conclusions beyond this macro trend because about 1.5% of charitable organizations could not be classified by size in any given year because they failed to report their number of paid staff. [12] Compounding this issue is the rise in the percentage of revenue accounted for by this small group of organizations. In 1998, organizations that could not be classified accounted for just 1.7% of total revenues, but by 2002 they accounted for 7.5%. With better T3010 reporting compliance, these revenues could be attributed to the correct organizational size classes, therefore permitting a more detailed analysis of revenue concentration by SMO sub-segments.

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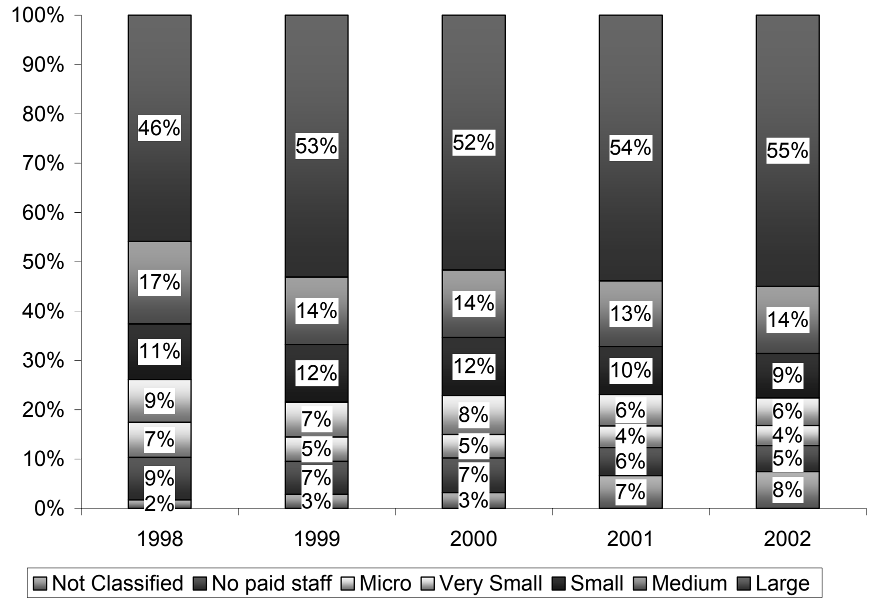
[11] The data have not been weighted by the number of employees and therefore it is possible that contracting organizations were larger than those that expanded, therefore resulting in a possible general contraction in the sector.

[12] The moderate average revenues of organizations that were not classified suggests that they are likely Very small or Small in size.

Figure 4: Revenue distribution by organization size, CRA T3010



*Organizations not classified failed to report their number of paid staff

Average Revenue of Organizations By Size

Figures 5, 6 and 7 illustrate the trend in average revenues for organizations of various sizes from 1998 to 2002. These figures clearly show that only Large organizations have experienced growth in average revenues for every year during the study period.

Organizations with no paid staff and Micro organizations report stable average revenues from 1999 to 2002, following a slight decline from 1998 (see Figure 5). Very Small organizations report declining average revenues in both 2001 and 2002. Despite a significant jump in 2000, the average revenues of Very Small organizations are considerably lower in 2002 ($605,000) than they were in 1998 ($735,000).

Small organizations also reported a decline in average revenues in both 2001 and 2002 (see Figure 6). Despite growth in average revenues in 1999 and again in 2000, the average revenue of Small organizations in 2002 ($2.5 million) is still slightly lower than it was in 1998 ($2.7 million). Although Medium organizations reported average revenue growth for three consecutive years (2000 to 2002), they have still not returned to the average revenue levels reported in 1998.

Large charitable organizations are the only segment to report growth in average revenues in each of the years observed. As a result, in 2002, the average revenues of large organizations ($113 million) is considerably larger than the average revenues reported in 1998 ($78 million). This is a startling 43% increase in average revenues in just 4 years. Further analysis must be conducted to determine if this growth is driven by higher revenues among similar sized organizations, or if there are proportionally more organizations with larger staff contingents in 2002 than there were in 1998 (see Figure 7).

Figure 5: Average revenues of organizations with no paid staff, Micro and Very Small organizations, T3010 data

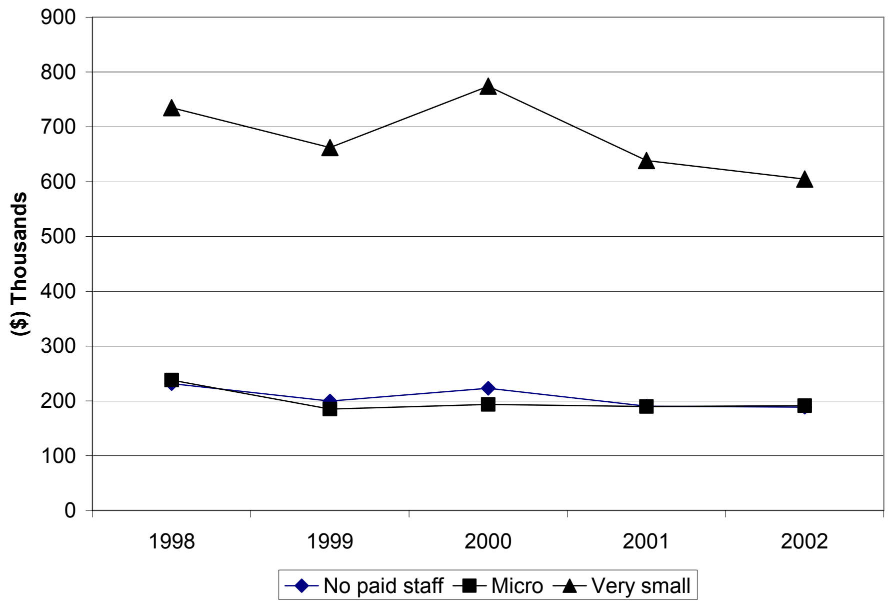


Figure 6: Average revenues of Small and Medium organizations, CRA T3010

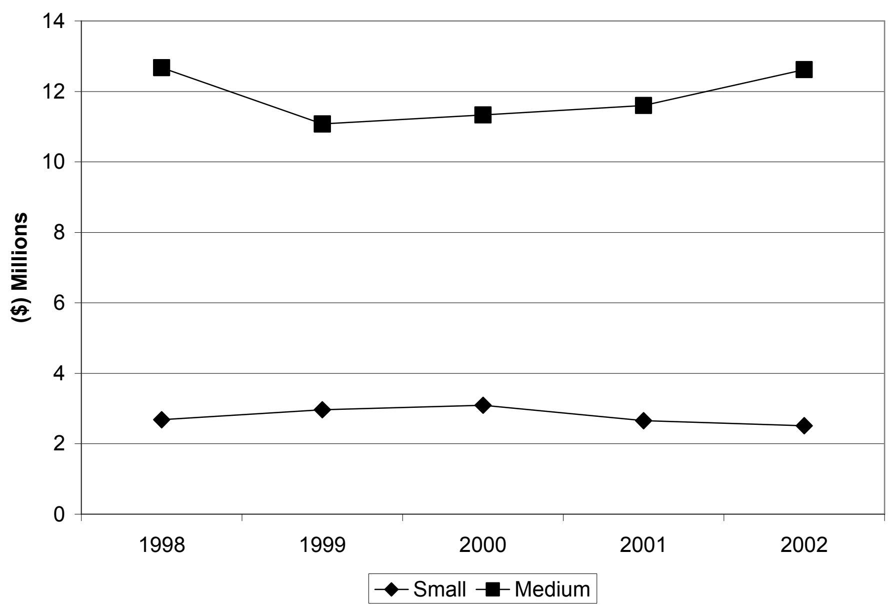
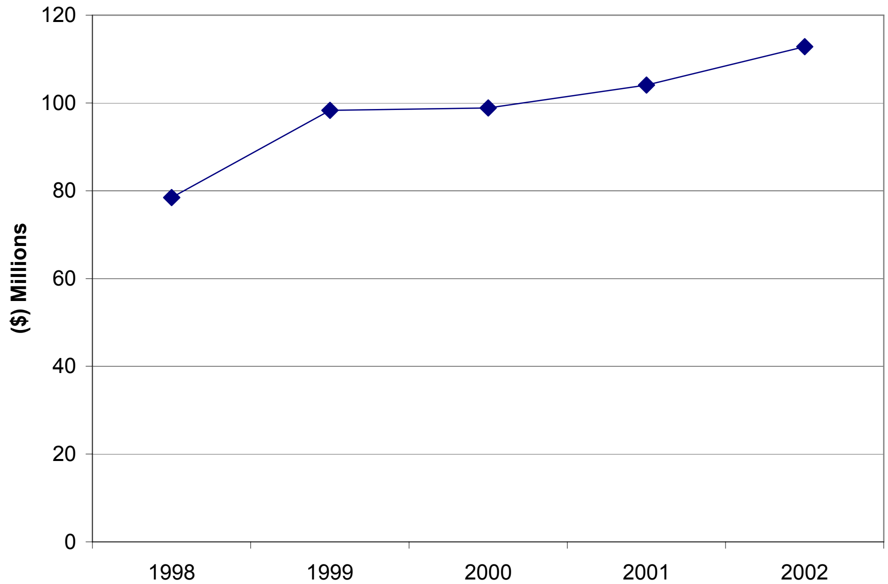


Figure 7: Average revenues of Large organizations, CRA T3010



Summary

The five year period from 1998 to 2002 appears to have been a period of expansion for registered charities. The number of charitable organizations grew each year, revenues grew each year, and the number of organizations reporting expansion exceeded the number reporting contraction each year (as measured by movement from size segments). The share of revenue data and average revenue by size data suggest that most of this growth was occurring among Large organizations while SMOs were, for the most part, contracting in size.

These trends may have long-term implications for growth in the charitable sector. The life cycle data show that organizations tend to move in a linear fashion, from one size segment to the next larger segment. If SMOs with 1 to 99 employees continue to experience a declining share of revenues and a general contraction to smaller size segments, this may mean that there will be fewer healthy growing charities available to expand into the medium and large segments. In other words, it is important to ensure that SMOs with 1 to 99 employees remain strong and healthy because they are the most likely candidates to become the medium and large-sized charities of tomorrow. If the health of these organizations is compromised, the entire sector could face slower levels of economic expansion and job creation.

Summary

On average about 5.9% of charitable organizations churn each year. About two-thirds of that churning is due to newly reporting organizations, and one-third to organizations that stop reporting each year. Most churning occurs among organizations with no paid staff or Micro organizations. Additionally, 4.2% of organizations report an expansion to a larger size segment and 3.2% report a contraction to a smaller size segment. Taken together, there are almost 10,000 charities (13.2% of all charities) in some form of transition each year.

The detailed shifting analysis by size segments show that most organizations are stable from year to year. Among those organizations that do transition, most shift to an adjacent size segment. That is, organizations that are Small are most likely to either shift down one category to become Very Small, or expand one category to become Medium. Generally, organizations are not as likely to jump by more than one size segment. Large organizations are the exception, and are more likely than other organizations to make significant size transitions. It is not known why this occurs.

The trend analysis suggests that the five year period from 1998 to 2002 was one of expansion for charitable organizations. Both the number of charitable organizations and their revenues grew in each of the years under investigation. Furthermore, the number of organizations reporting expansion exceeded the number reporting contraction in each of the years investigated (as measured by movement from size segments).

Although charities reported growth in overall revenues from 1998 to 2002, the share of revenue data and average revenue by size data suggest that most of this growth was concentrated among Large organizations. These trends may have long-term implications for the health of the charitable sector. The life cycle data shows that organizations tend to grow in a linear fashion. This suggests that it is important to foster and support organizations with few paid staff as they are most likely to become the Medium and Large organizations of tomorrow. If the health of these organizations is compromised, the entire sector could face slower levels of economic expansion and job creation.

Supports for Charitable and Nonprofit Organizations

Governments and private organizations in Canada and elsewhere provide supports for the charitable and nonprofit organizations.[13] The vast majority of these supports are not directed specifically at SMOs. Supports for the nonprofit sector can include:

- Financial supports, both direct and indirect, including funding, tax policy, and financial services.
- Information and learning resources for organizations, including research on the sector, and information technology and information management supports.
- Improving government-sector relations and the regulatory framework of the sector, including creating framework agreements for government-sector relations, and increasing sector involvement in public policy making.
- Increasing awareness of the sector and its contributions, including initiatives to promote and support volunteering

Below we present some general forms that these supports take, using examples from a variety of jurisdictions.

Financial Supports

Financial supports of the sector can include direct funding, including opening programs for small businesses to social economy organizations and indirect supports such as through taxation policy, financial services.

Direct supports

Direct financial support from federal and provincial governments accounts for approximately half of nonprofit sector revenues in Canada. Financial support from the federal government takes three primary forms:

- contracts to provide goods and services,
- grants and contributions for particular purposes,
- transfers based on legislation and according to schedules. Transfer payments are often made to provincial governments to fund healthcare and education (Carter et al., 2004). These funds are often passed on by provincial governments to nonprofit organizations. Provinces transfer a large amount of funding to organizations to deliver programs such as social services, such as when Ontario funds community living organizations through transfer payments, (INNOVA Learning, 2005) or when Newfoundland and Labrador implemented several funding programs to help the voluntary sector to achieve goals that

[13] Federally, many of these supports were provided as part of the VSI, a five-year joint initiative of the federal government and the voluntary sector to strengthen the relationship between the sector and government, to enhance sector capacity, and to improve the regulatory framework for the sector (Carter et al., 2004).

were established in the province's Strategic Social Plan for economic and social problems (Social Policy Advisory Committee, 1998).

Some provinces use revenues from gaming to provide funding to nonprofit organizations. Ontario and Alberta use revenues from charitable gaming to provide funding to nonprofit organizations through the Ontario Trillium Foundation and the Wild Rose Foundation, respectively. Both are agencies that award government grants and funding to organizations in the nonprofit and voluntary sector.

In addition, private sources of funding for organizations in Canada include foundations, corporations and other grant-making bodies. Imagine Canada's *Canadian Directory to Foundations and Corporations* lists 2200 foundations and 140 corporations that disburse funding to organizations (Imagine Canada, 2005).

According to the findings of the Johns Hopkins University Comparative Nonprofit Sector Project, governments in the welfare partnership pattern of countries of Western Europe, such as France or Germany, typically providing over half of cash revenues for the sector as a whole. In contrast, in the Anglo-Saxon grouping of state, which includes countries such as the United States, over half of revenues for the sector tend to come from fees, with approximately a third of revenues coming from philanthropic sources such as donations and gifts (Hall, Barr et al., 2005).[14]

Indirect supports

Taxation policy provides indirect support to the sector. Federally, the *Income Tax Act* and the *Excise Act* give nonprofit organizations and charities preferential treatment. Both charities and nonprofit organizations are eligible for sales tax rebates and exempt from income tax, and donations to registered charities are tax deductible for both individuals and corporations. Tax exemptions such as this create incentives for individuals to support registered charities and deemed charities.

The U.S. provides a number of indirect supports to charitable and nonprofit sectors that are not available in Canada. Definitions of what constitute charitable activity are less restrictive, and foundations are able to invest their endowments in different ways than in Canada. The Community Reinvestment Act requires that banks prove they are putting money into every community they are taking funds. This has directed billions of dollars to community organizations and has created substantial community economic development financing from banks, tax credit incentives and the federal Community Development Financial Institutions Fund (Strandberg, 2004). There is also complete exemption on capital gains for charitable gifts of publicly traded securities in the U.S. (Imagine Canada, 2005).

[14] The European Union, United Kingdom, Italy, German, Australia, Spain, Belgium, the Netherlands, France, United States and Portugal all provide government supports to social economy enterprises. These supports can include descriptive research; regulatory frameworks; funding for service delivery, capacity building, policy making, to address specific issues, or broad-based funding initiatives; and measuring impacts and best practices (Painter, 2005). In 2004, the federal governments announced that programs for small businesses would be made available to social economy enterprises (Painter, 2005).

Financial services

Financial institutions that service charities and nonprofit organizations are in their infancy in Canada. The VanCity Credit Union began to actively service charitable and nonprofit organizations in the greater Vancouver area in 2000, and the first branches of the Vartana community bank are scheduled to open in Ontario in 2006. Other organizations such as Social Capital Partners are also supporting the sector by investing in social enterprises. Overall however, Canada is ten years behind the U.S. in terms of developing community investment services (Strandberg, 2004). These emerging institutions offer charities and nonprofit organizations increased access to venture capital to stimulate social innovation and they offer financial services that allow charities and nonprofits to invest in infrastructure, technology and training through debt financing.

Vartana is a registered charity with a mandate to develop Canada's first financial institution dedicated to meeting the unmet financial needs of voluntary sector organizations (Vartana, n.d.). Vartana is scheduled to open its first branches in Ontario in 2006. The bank is modelled after the United Kingdom's Charity Bank. The Charity Bank is a nonprofit development bank with a mission to provide financial services and financial capital to nonprofit organizations that might be unable to acquire financing otherwise, enabling those organizations to create social capital (Charity Bank: The world's first not-for-profit bank, n.d.). The federal government committed funds to help with the start-up of Vartana.

Since 2000, the VanCity Credit Union has become the industry leader in serving nonprofits, with a 25% market share in the greater Vancouver area. As of June 2004, VanCity had $55 million in loans and $195 million in deposits in its program for nonprofits. The credit union has found that financing nonprofit organizations does not represent a higher risk than financing for-profit businesses, and that nonprofit organizations have a delinquency ratio "substantially lower than owner-operated businesses" (Diekmann, 2004). A Canadian Charity Bank is also under development.

Social Capital Partners follow a different model. This organization invests in social enterprises that employ "populations outside the economic mainstream in Canada" (Social Capital Partners, n.d.). Social Capital Partners offer a range of financial services to organizations at various stages of their life-cycle. Social Capital Partners invest in enterprises that offer an attractive blended return (financial and social) on investment.

Information and Learning Supports

Support can be provided to organizations in the form of information resources and learning opportunities. This can include resources on funding, human resources, information technology/information management and research on the sector as a whole. Federally, many supports of this type were created as part of the National Learning Initiative (NLI) of the VSI. Information and learning supports related to funding and financial management include:

- Imagine Canada's *Canadian Directory to Foundations and Corporations*, which provides a database of funding sources for organizations. As part of the VSI, Industry Canada funded enhancements to the Directory, including the addition of corporate funders to the database (previously the resource had been titled *the Canadian Directory to Foundation and Grants*), and the addition of some free features for small organizations (Imagine

Canada, 2005). Other providers of this type of service include Metasoft's Big Online Canada database (Metasoft Systems Inc., n.d.).

- *The Inventory of Effective Practices and Financial Resourcing of Voluntary Sector Organizations in Canada,* which contains case studies of successful financing at several organizations, creative ways organizations are raising, accessing and utilizing funds, and resources to strengthen long-term capacity and provide programming (Capacity Joint Table, 2003).
- *Resources for Accountability and Financial Management in the Voluntary Sector* a guide that contains an inventory of accountability and financial management resources especially for medium-sized organizations (Capacity Joint Table, 2003).[15]

Information and learning supports for human resources include:

- The National Inventory of Voluntary Sector Management Training and Education Programs, which provides a list of management and training learning opportunities and was created by the Population and Public Health Branch of Health Canada (Strategic Policy Directorate Population and Public Health Branch, 2000)
- *Developing Human Resources in the Voluntary Sector* (HRVS), which provides practical human resources tools and information for employers and boards as part of the Human Resources Council for Nonprofit/Voluntary Sector of HRDC Canada (Carter et al., 2004; VSI, 2003). The Human Resources Council provides a vehicle for the sector and its employees to address human resources concerns.
- *Leadership in the Voluntary Sector: Human Resources Tools,* a manual created by The National Learning Initiative for the Voluntary Sector (NLI) that contains a set of human resources tools for voluntary sector leaders (Association of Canadian Community Colleges & Coalition of National Voluntary Organizations, 2003).

Research supports the charitable and nonprofit sector by enabling effective and appropriate public policy. Federal research support of the sector has included:

- The ongoing series of surveys of public support for the sector in the National Survey of Giving, Volunteering and Participating (NSGVP, now the Canada Survey of Giving, Volunteering and Participating, or CSGVP).
- Building the Satellite Account of Nonprofit Institutions and Voluntary Activity to measure the economic contributions of the sector
- Mapping the size and scope of the sector through the National Survey of Nonprofit and Voluntary Organizations. This project also included a qualitative report on better understanding organizations (Hall, Andrukow et al., 2003; Hall, Barr et al., 2005).[16]

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[15] In addition, the Canada Revenue Agency has solicited proposals for an awareness program on regulatory requirements, but has not yet announced the recipients of funding to develop this program.

[16] Future supports can build on these projects. Ongoing funding of the *National Survey of Nonprofit and Voluntary Organizations (NSNVO)* is needed to provide benchmark data and to make analysis of the charitable and nonprofit sector an ongoing part of the national statistical system. Measurement of the economic *outputs* of the sector is also

Research on the needs of the sector, such as Scott's *Funding Matters: The Impact of Canada's New Funding Regime on Nonprofit and Voluntary Organizations*, which outlines funding practices, is essential for providing effective and relevant supports of all types (Scott, 2003).

A number of information supports that are specific to the information technology and information management capacity of organizations are also available. Industry Canada created a number of supports of this type as part of the VSI, including:

- a voluntary sector portal for one-stop access to information and support for the sector (http://www.voluntarygateway.ca);
- online tools for technology-funding grantmakers and grantseekers (http://www.vsi-isbc.ca/eng/imit/changing_funding.cfm);
- a national network for IM/IT training and technical support (http://www.imitcanada.org/);
- a national Technology Awareness Campaign to raise awareness of these IM/IT tools (Social Development Canada, 2005; VSI, n.d.b).

Improving Government Relations and the Regulatory Framework

Sector-government relations and the regulatory framework for organizations are closely related, as government determines much of the regulatory environment for organizations. Methods to improve government relations and the regulatory framework for organizations include creating framework agreements, increasing sector involvement in public policy making, and initiatives to address issues related to accountability for funding, charitable status and legal risk and liability.

Improving Government Relations

Framework Agreements

Framework agreements are non-legal documents that guide government-sector relations. The agreements often set guidelines to improve funding practices and sector involvement in public policy dialogue. Framework agreements have often been created as part of larger initiatives by governments to support the nonprofit and voluntary sector through a variety of programs and initiatives, such as the Federal VSI, the Saskatchewan's Premier's Voluntary Sector Initiative, or France's 2005 initiative on associations.

The primary document of the federal framework agreement is the *Accord Between the Government of Canada and the Voluntary Sector* (VSI, 2001). The Accord had two supplementary documents, the *Code of Good Practice on Funding* and the *Code of Good Practice on Policy Dialogue* (Joint Accord Table, 2002; VSI, 2002). The *Code of Good Practice on Funding* commits the government to the effective and accountable use of public funds in a way that assists the nonprofit sector to fulfill reasonable accountability requirements and commits the sector to using ethical, accountable and competent governance, financial and administrative system for the use of funds. The code also refers to ways that the process of

needed. The Human Resources Sector Council also needs investment in longitudinal research on the workforce of the charitable and nonprofit sector (Imagine Canada, 2005).

funding could be streamlined, simplified and made more transparent and accessible. It also identifies ways to improve funding practices such as multi-year funding and a strategic investment approach which would allow some infrastructure costs to be included in project funding or be the subject of separate funding arrangement, increasing stability for organizations, and strengthening the long-term capacity of organizations (Carter et al., 2004; Imagine Canada, 2005).

Saskatchewan has begun to implement a framework agreement as part of the Premier's Voluntary Sector Initiative and Quebec has policies for government interactions with both the independent community action sector and social economy organizations (The Premier's Voluntary Sector Initiative, 2003).[17] In the Independent Community Action policy, Quebec defines the scope of the sector clearly, sets out explicit government funding practices (i.e. providing core funding for infrastructure and operational capacity for three-years at a time, providing funding for new or innovative services that are complementary to public services, and providing funding for short-term and ad hoc projects), makes commitments to support training and professional development policies, and funds rights advocacy (Busque, 2001; Carter et al., 2004). Quebec has also identified three key policy directions for strengthening the province's Social Economy: access to appropriate funding and capitalization, recognition and development of markets and revising the legal status of nonprofit organizations (Laforest & Phillips, 2003).

England's *Compact on Relations Between Government and the Voluntary and Community Sector,* the codes of good practice[18] associated with the compact and the subsequent *Compact Plus* have been models for framework agreements worldwide, including Canada (Brock, 2004; Hall, Barr et al., 2005; Kendall & Almond, 1999; Scott, 2003). Other countries that have adopted framework agreements, including Scotland, Northern Ireland and Wales, South Africa, Australia (in some jurisdictions), New Zealand, the Republic of Ireland and France (INNOVA Learning, 2005; Manitoba Voluntary Sector Initiative, 2000; 2001; Ministère de la jeunesse des sports et de la vie associative, 2005; Phillips, 2001).[19]

Increasing Sector Involvement in Public Policy Making

When governments increase engagement with the charitable and nonprofit sector, it increases opportunities for citizen engagement and participation in democratic life, opening opportunities for policies and programs to benefit from the input of the stakeholders in the sector (Imagine Canada, 2005).

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[17] The Independent Community Action Sector in Quebec essentially corresponds to the charitable and nonprofit sector elsewhere in Canada, though it does not include religious bodies. Social economy organizations are not necessarily covered by the 2001 community action policy.

[18] The Compact is supplemented by a series of codes of good practice that addressing funding, consultation, volunteering, black and minority ethnic groups, and community action (Phillips, 2001).

[19] President Clinton's Task Force on Nonprofits found that, in successful government-sector partnerships, the leadership of government agencies supported partnerships as a way to achieve their goals, goals were shared between government and the sector, the government dedicated staff to building and maintaining the relationship, and organizations either had independent funding to support the partnership or were provided with adequate funding to do so. Factors that worked against partnership included maintaining the relationship over long periods of time, especially with staff turnover – given the sense of personal trust that enables partnership, limited opportunities for organizations to be involve in policy making and over-demanding funding and reporting procedures (INNOVA Learning, 2005).

- Sectoral Involvement in Departmental Policy Development (SIDPD) was a five-year program of the VSI to fund projects to foster collaboration in policy development the federal government and the sector (Audit and Evaluation Directorate, 2004; VSI, n.d.b). SIDPD provided funding to develop the public policy capacity of the sector and to create opportunities for the sector to have input into government policy making (Carter et al., 2004; VSI, 2002).
- A Policy Internship and Fellowship exchange program between the government and sector for policy staff (Policy Internship and Fellowships Program, 2004).
- A manual for organizations on how to participate in federal public policy titled *Participating in Federal Public Policy: A Guide for the Voluntary Sector* (Capacity Joint Table, 2003).
- The Voluntary Sector Forum (VSF) oversaw the implementation of the VSI, provides leadership coordination within the voluntary sector on sector-wide issues, and is composed of a mixture of representatives intended to reflect the diversity of the sector as a whole (Voluntary Sector Forum, 2003-2005).
- In New Brunswick, the Commission on Legislative Democracy has recommended a number of measures to promote engagement and participatory democracy by engaging the sector in government decision-making, measures such as including creating a central public dialogue office, creating a civic engagement fund to support organizations engaged in consultation activities including research, and developing guidelines for open consultation (Social Policy Advisory Committee, 1998).
- In 2003, the Manitoba government committed to supporting the sector, considering the changing needs of the sector in policy development, and engaging in ongoing dialogue with the sector (INNOVA Learning, 2005).
- Scotland and Ireland have both established civic forums to institutionalize policy dialogue between government and the sector (Phillips, 2001).
- In 2005, France started a dialogue with the sector concerning developing volunteerism through improving the legal framework for organizations, encouraging corporate patronage, and improving the financial capacity of the sector. (Ministère de la jeunesse des sports et de la vie associative, 2005).

Improving the Regulatory, Legal and Liability Environment

Like the regulatory issues that face charitable and nonprofit sector, potential policies to support organizations address both the accountability of organizations for funding and the regulatory framework of charitable status. Many regulatory supports affect key factors for the success of organizations, such as financial capacity, human resources capacity or innovation capacity.

- The Joint Regulatory Table of the VSI[20] worked with the CRA to created a simplified T3010 information return form for charities, to clarify guidelines on permissible business

[20] In 2003, The VSI Joint Regulatory Table produced a report on regulatory issues of the charitable and nonprofit sector with seventy-five recommendations on regulatory issues for charities and nonprofits, howevert report focussed on a small handful of key issues.

activities for registered charities which had been vague and not transparent, to post draft policies and annual information returns on the CRA website, and to streamline the registration process for obtaining charitable status (Joint Regulatory Table, 2003).

- One of the activities of Ontario's Volunteer Linkages Program, established in 1997, was to simplify the incorporation process for new nonprofit groups. (INNOVA Learning, 2005).
- The codes of good practice of the *Accord* represent significant ways to improve the funding and accountability environment for organizations (Imagine Canada, 2005).
- The regulatory frameworks of the U.S. and the U.K. are more supportive of commercial activity by organizations and social entrepreneurs and also provide greatly improved network of social capital supports than what is available in Canada, improving the innovation capacity of the charitable and nonprofit sector in those countries. (Strandberg, 2004)

Organizations in other countries such as the U.S. have tried a number of methods to ensure that affordable, accessible and predictably-priced liability insurance is available to charitable and nonprofit organizations. Government approaches have included regulation, mandatory data disclosure (addressing the problem of a lack on information on the risks associated with charitable and nonprofit organizations), dissemination of resources, development of risk management tools, improving sector funding models and tort reform.

Nonprofit organizations themselves have also formed private insurance pools to provide mutual liability insurance coverage. A 2005 study in Canada concluded that the commercial insurance system in Canada could never provide long-term assurances that addressed the key concerns of the nonprofit sector, and that the best available solution was to create such independent risk pooling mechanisms like reciprocal insurance exchanges or a nonprofit insurance company (MacLeod, 2005).

Promoting the Sector and its Contributions

Supports to promote the sector and its contribution can include public awareness campaigns and initiatives to promote and support volunteering.

A cross-Canada Voluntary Sector Awareness Initiative to increase awareness of the role of the sector was announced in May 2005 and will be delivered by eight national umbrella organizations, working under the leadership of Imagine Canada (VSI, n.d.c).

The Canada Volunteerism Initiative (CVI) is meant to improve the capacity of organizations to benefit from volunteers, to encourage volunteerism, and to improve the volunteering experience. The CVI established three national centres to execute this mission and deliver programs and services related to volunteerism and thirteen local networks to keep the CVI in touch with local needs. The three national centres are the Knowledge Development Centre; the Information, Capacity-Building and Awareness Centre; and the Community Support Centre. The Knowledge Development Centre is operated by Imagine Canada and provides support for local and national research volunteers and volunteerism. The Information, Capacity-Building and Awareness Centre is operated by Volunteer Canada in partnership with Imagine Canada and manages a resource centre, an awareness campaign and a capacity-building program for the charitable and nonprofit sector. The Community Support Centre is operated by Volunteer Canada, and provides support for organizations to develop and test innovative methods for encouraging, supporting and sustaining volunteering (National Volunteerism Initiative Joint Table, 2001).

Provinces have also implemented policies and programs that provide supports specifically for volunteerism. The Harris government in Ontario appointed a minister responsible for volunteerism. The Alberta government provides support for volunteering through the Wild Rose Foundation and has also created a Volunteer Services Branch, which has ten regional offices where communities have access to assistance with volunteer programs and services. In Ontario, activities of the Volunteer Linkages Program that was established in 1997 included allowing charities to purchase liability insurance to protect board members, funding a three-year program to help organizations build volunteer screening practices, expanded volunteer service awards program, and forming Premier's Round Table on Voluntary Action, which met once (INNOVA Learning, 2005).

Some governments also promote volunteering for government departments. British Columbia, for instance, moved to staff its parks exclusively with volunteers. The B.C. government has a policy on ministries' responsibilities to individual volunteers: volunteers may be covered by the Accident and Liability Insurance Plan, appropriate training and/or orientation must be provided for volunteers, and ministries can recognize volunteers but not in a way that could be construed as payment for services

Conclusions

This report presents the first-ever comprehensive analysis of community sector organizations in Canada that focuses specifically on small- and medium-sized organizations. It explores the literature and quantitative data available to develop a fact-based portrait of the characteristics, contributions and capacity challenges of small and medium community sector organizations. While the literature review used the broad definition of community organizations as its scope, the data analysis was restricted to available data on charitable and nonprofit organizations.

The review of literature reveals that little is known specifically about SMOs. In fact, the term SMO is one that currently does not exist in the literature. To date, several studies (Hall, Barr et al., 2005; Hall, de Wit et al., 2005; Hamdad, Joyal & Rompaey, 2004) have segmented the charitable and nonprofit sector using various dimensions (i.e., income, revenues, organization type, etc.). While each of these studies illuminated some of the unique contributions and challenges that face small- and medium-sized organizations, none provided a discrete analysis of small- and medium-sized organizations.

Qualitative research suggests that smaller organizations generally experience the capacity issues that are generally reported by the community sector – human resources, financial, external funding and planning and infrastructure issues – more acutely than larger organizations. This conclusion however, is generally not supported by the National Survey of Nonprofit and Voluntary Organizations, which suggests that medium-sized organizations most commonly report a wider range of capacity issues. The literature on life cycles of organizations, however, does confirm the notion that organizations at different stages in their development have different skill requirements. This suggests that life stages are an important consideration when assessing the capabilities and challenges that organizations face. It is also important for policy makers to consider policy development that is specific to the relevant life stages of organizations.

Our analysis of NSNVO data shows that SMOs account for the vast majority of charitable and nonprofit organizations (99.6%) in Canada. SMOs also account for the majority of the revenue, employees and volunteers in the charitable and nonprofit sector. The NSNVO data demonstrate that SMOs make a significant social and economic contribution to the sector and they engage millions of Canadians in the work of building stronger communities in Canada.

The NSNVO data also demonstrates the unique character of SMOs. SMOs are more likely to serve local areas, and they are more likely to be Sports and Recreation organizations, Religious organizations, Social Services organizations, or organizations that promote volunteerism. SMOs are also more likely to have been in operation for a shorter period of time than Large organizations. While SMOs are quite distinct from Large organizations, they are by no means a homogeneous group of organizations. The characteristics of SMOs vary widely from the distinctive group of organizations with no paid staff at one extreme to the equally distinctive group of Medium organizations with 100 to 499 employees at the other.

SMOs have a unique revenue profile compared to large organizations. Whereas Large organizations receive most of their funding from government sources, SMOs receive revenues from a variety of sources, the largest proportion being from earned income. Generally, the larger the organization the more prominent government revenue is as a percentage of its total revenues.

Conversely, gifts and donations (individual donations especially) decline in importance as organizations size increases.

When it comes to human resources, SMOs rely on volunteer support to a much greater extent than Large organizations. While they depend less on paid staff, compared to Large organizations, SMOs employ a higher percentage of full-time paid staff rather than part-time paid staff, but a lower percentage of permanent paid staff. Compared to Large organizations, SMOs were less likely to report increasing staff levels from 2000 to 2003.

The NSNVO data on capacity challenges show that the frequency of reporting various capacity challenges varies with organization size. Generally speaking, SMOs are more likely to report financial capacity challenges than Large organizations and SMOs with five or more employees are generally the most likely to report all types of capacity issues. Among those organizations that receive external funding, Large organizations generally report external funding issues more frequently than SMOs. This is likely because large organizations tend to much more dependent on external funding than SMOs.

With regard to human resources capacity challenges, SMOs are more likely to report problems related to recruiting and retaining volunteers and board members, while Large organizations are more likely to report problems related to recruiting and training paid staff. These findings are not surprising considering SMOs rely on volunteers for the majority of their human resources and Large organizations rely on paid staff to a much greater extent.

SMOs are less likely than Large organizations to report most demand, infrastructure, planning and development capacity issues. The only issue in this category reported by a majority of both SMOs and large organizations is difficulty planning for the future.

The CRA T3010 data provide a valuable look into the life cycles of registered charities in Canada. On average about 5.9% of charitable organizations churn each year. About two-thirds of that churning is due to newly reporting organizations, and one-third to organizations that stop reporting each year. Most churning occurs among organizations with no paid staff or those with only 1 to 4 paid staff. Additionally, 4.2% of organizations report an expansion (to a larger size segment) and 3.2% report a contraction to a smaller size segment. Taken together, there are almost 10,000 charities (13.2% of all charities) in some form of transition each year.

A detailed analysis of organizations that shift each year indicates that most organizations are stable from year to year and those that do transition are most likely shift between organizations in adjacent size ranges. Large organizations are the exception, and are more likely than other organizations to make significant size transitions. It is not known why this occurs.

The trend analysis suggests that the five year period from 1998 to 2002 was one of expansion for charitable organizations. Although charities reported growth in overall revenues from 1998 to 2002, the share of revenue data and average revenue by size data suggest that most of this growth was concentrated among Large organizations. These trends may have long-term implications for growth in the charitable sector. The life cycle data show that organizations tend to move in a linear fashion, from one size segment to the next larger segment. It is important, therefore, to ensure that SMOs with 1 to 99 employees remain strong and healthy because they are the most likely candidates to become the Medium and Large charities of tomorrow. If the health of these organizations is compromised, the entire sector could face slower levels of economic expansion and job creation.

The data presented in this report show that SMOs make a vital contribution to Canadian society, the charitable and nonprofit sector and the economy in general. Unfortunately, many SMOs are struggling to deliver their missions due to market failures and imperfections. SMOs face financial vulnerabilities due to limited access to funding, and external funding models that generally do not cover the cost to run their operations. Many SMOs operate without paid staff, and many report difficulties recruiting, training and retaining volunteers. In order to maximize their contributions to society, many SMOs need access to more diverse and reliable financial assistance, more resources to recruit, train and retain volunteers, and many need help recruiting, training, and retaining paid staff.

As both a policy maker and the prime funder of community organizations, government is a key player when it comes to providing the supports necessary for SMOs to flourish. Federally, and in several provinces, governments have already started the process of creating an environment that supports the work of community sector organizations. Canadian governments can also learn from Britain, France and the United States where government, the community sector and the private sector have all worked to create innovative support mechanisms for the community sector. Within Canada, some supports are provided specifically for SMOs, but the majority of supports have been generally developed for the community sector as a whole. There is, therefore, an opportunity to refine these supports to better meet the specific needs of organizations of different sizes and organizations at different stages in their life cycle.

There is also a pressing need for a strategic approach to data collection. Our research reveals that, relative to the abundance of knowledge regarding SMEs, there is a dearth of knowledge pertaining to SMOs. There is also a need to develop more comprehensive measures of the social contributions of community sector organizations. Studies such as the NSNVO help to dimensionalize the contribution of the sector from an economic perspective, but shed very little light on the immense social contributions of the sector. To gain a true understanding of the sector, we must be able to measure both of these dimensions.

Finally, our research highlights the emergence of new forms of community organizations that operate somewhere between the nonprofit and for-profit sectors. These organizations promise to deliver a blend of social and financial returns provided the right supports, structures, incentives, and measures are in place for them to exist and thrive. However, at this time, the potential of these “hybrid” organizations is unclear and additional research is required to determine the roles that various organizational forms can play in building economic and social capital.

Appendix – Methodological Notes

Literature Review

The literature review focused on Canadian publications but included some relevant materials from the international community. Resources were identified through the library collections of the University of Toronto and the Imagine Canada—John Hodgson Library. The ERIC, Sociological Abstracts, Web of Knowledge/Social Sciences Abstracts, Business Index and EconLit bibliographic indexes were searched. Published and unpublished resources were also identified from the literature reviews and bibliographies of previous Imagine Canada and CPRN publications, as well as relevant web materials.

The National Survey of Nonprofit and Voluntary Organizations (NSNVO)

The data in this report are from the 2003 National Survey of Nonprofit and Voluntary Organizations (NSNVO). NSNVO data were collected by Statistics Canada via personal interviews with approximately 13,000 individuals representing incorporated nonprofit organizations and registered charities in 2003. The data presented in this report have been weighted to provide estimates for the 161,000 incorporated organizations and registered charities in Canada.

The NSNVO defines charitable and nonprofit organizations as:

- non-governmental (i.e., are institutionally separate from government);
- non-profit distributing (i.e., do not return any profits generated to their owners or directors);
- self-governing (i.e., are independent and able to regulate their own activities);
- voluntary (i.e., they benefit to some degree from voluntary contributions of time or money); and
- formally incorporated or registered under specific legislation[21] with provincial, territorial, or Federal governments.

Segmentation Strategy

For the purposes of this report, organizations were segmented into six discrete groups according to the number of paid staff they reported in the 2003 NSNVO. The segmentation analysis is intended to sort SMOs and arrange them into homogenous groups according to their size. The objective is to identify and label organizations from smallest (micro) to largest (medium-sized) in terms of their pool of resources.

[21] The NSNVO excluded grass-roots organizations or citizens' groups that are not formally incorporated or registered with provincial, territorial, or federal governments. It also excluded some registered charities that are considered to be public sector agencies (e.g., school boards, public libraries, and public schools).

The main criteria used to segment organizations are staff size. Consistent with the Industry Canada definition for Small- and Medium-sized Enterprises (SMEs), nonprofit organizations with fewer than 500 employees will be considered Small or Medium-sized Organizations (SMOs). The six groups are:

- No paid staff – organizations with zero paid staff;
- Micro – organizations with 1 to 4 paid staff;
- Very small – organizations with 5 to 19 paid staff;
- Small – organizations with 20 to 99 paid staff;
- Medium – organizations with 100 to 499 paid staff; and
- Large organizations with 500 or more paid staff.

Segmentation Criteria

The segmentation strategy considered each of the following criteria:

1. Adherence to the specifications as outlined by Human Resources and Social Development Canada (HRSD). HRSD clearly defined small- and medium-sized organizations as those with less than 500 employees.
2. A comparative analysis of SMO definitions. SMO definitions from Industry Canada, Statistics Canada, and the Organizations for Economic Cooperation and Development were compared and considered for this analysis (see Appendix B – Definitions for a glossary of Small and Medium definitions).
3. The SME definition for the service industry was considered. As the activities of charitable and nonprofit organizations more closely resembles service industries (as opposed to goods producing), the service definition for small organizations (less than 50 employees rather than 100 employees) was also considered.
4. Empirical evidence. The NSNVO data was segmented using several definitions for SMOs. The resulting groups were compared for similarities and differences across a variety of descriptive statistics.

Segmentation Findings

1. SMOs of different sizes have distinct characteristics, resources and face different challenges. It is therefore important to compare not just SMOs versus large organizations, but also to consider SMOs of various sizes.
2. The number of paid staff an organization employs is a good proxy measure for determining the ‘size’ of the organization. Three methods for calculating an organizations size — number of paid staff, number of paid staff plus the number of volunteer full-time equivalents (FTE’s), and full-time staff equivalents (all part-time staff were converted to full-time equivalents) — were used to segment organizations by size. The most homogeneous segments were produced when only paid staff was used to determine organization size.
3. The general definition of small organizations (less than 100 employees) produced more homogeneous segments than the service definition (less than 50 employees).

4. The OECD segmentation strategy produced relevant and distinctive segments for the charitable and nonprofit sector. The additional sub-category levels were also helpful in exploring the distinct characteristics of SMOs of various sizes.
5. The category of zero paid staff was added to the OECD segmentation strategy as the empirical evidence suggests that this is a unique class of charitable and nonprofit organization.

Once organizations were segmented, a descriptive analysis of the segments was conducted by running cross-tabulations of variables in the NSNVO data set against the segments. The results of this analysis are presented in this report.

Canada Revenue Agency Data Analysis

Data Description

The T3010 is a census of registered charities in Canada. Multiple years of data can be linked by the Business number / Registration number field for each organization.

The data is collected by the Canada Revenue Agency (CRA), through the annual Registered Charity Information Return (T3010 / T3010A). There are approximately 80,000 returns filed each year.

It is important to note that not all T3010s are submitted for a twelve month period. Often organizations file multiple returns in a single year, to ensure that their full twelve months of activity are accounted for.

Who Files a T3010?

Federally registered charities are regulated by the Canada Revenue Agency (CRA) because they are exempt from income tax and are able to provide tax receipts to donors so that they may obtain tax relief. To demonstrate compliance with federal tax laws, registered charities must file a *Registered Charity Information Return* (T3010) with the CRA each year

Years Available

Data from 1997 – 2002 data was collected using the T3010 collection form.

Data for 2003 was collected using the T3010A collection form – revised (simplified version of the T3010).

Data prior to 1997 is also available but a different collection form was used.

Records were checked for accuracy, and 5,000 records were removed due to incomplete or inaccurate data.

Data Analysis

As part of these analyses, raw T3010 returns were processed in a number of ways. Firstly, where there were multiple returns for a given calendar year (typically due to changes in the organization’s fiscal year), information from the various returns was processed to produce one record for the year. Where the information was additive, the values from multiple returns were summed together (e.g., government revenues from two separate returns filed by the same organization during the same calendar year were added together to produce one total government revenues figure for the calendar year). Where the information was not additive, the average of the figures reported was used (e.g., the number of compensated positions from two separate returns filed by the same organization during the same calendar year would be averaged to produce one figure for the calendar year).

Secondly, returns were processed in order to identify missing data and to correct errors in reporting. Perhaps the most dramatic missing data problem was failure to file a return – where returns were missing, but the organization seemed not to have gone out of existence (i.e., the organization had filed returns in previous years and went on to file returns in subsequent years, but lacked a return for a given year), the record was simply marked as a missing return for that year. A number of more specific techniques apply to other components of the analysis, including:

Life cycle analysis

On line 300 of the T3010 respondents are asked to report the average number of "compensated positions" the organization had "during the fiscal period" covered by the return.

One relatively common error was for organizations to report that the average number of compensated positions was zero and then subsequently report that they had compensated managers on lines 301 to 309. Records where this error was present were marked as reporting a zero value in error.

Another common error was for organizations to fail to respond to line 300, meaning that a value of zero was entered on line 300 by CRA. Where a zero value appeared to have been entered in error (i.e., where an organization stated that it had had more than one paid staff in both the previous year and the subsequent year[22]), the average of the figures for the two years was used instead.

Revenues figures

Respondents were asked to report both total annual revenues and revenues by various line items. As a check on data integrity, the sum of the reported line items was compared to the total revenue reported on the T3010 return. Where the total revenues reported by the respondent differed from the computed total by more than 5% (where that 5% was greater than $500) these returns were excluded from the revenues analysis. Only returns where the difference between the reported total revenues and the computed revenue total was less than 5% of total revenues, or less than $501, were included in the revenues analysis.

[22] This processing was limited to organizations having more than one paid staff position in both preceding and succeeding years based on the belief that it would be relatively common for organizations to fluctuate between one and zero paid staff positions over multiple years, but relatively uncommon for them to fluctuate between more than one paid staff and zero paid staff. Where organizations reported one paid staff in the preceding or succeeding year, a response of zero paid staff was considered valid.

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