

EARNED INCOME-GENERATING ACTIVITIES AMONG CANADIAN CHARITIES

A summary of findings from Imagine Canada's Sector Monitor

Earned Income-Generating Activities Among Canadian Charities

A summary of findings from Imagine Canada's Sector Monitor
by David M. Lasby

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About Imagine Canada

Imagine Canada is a national charitable organization whose cause is Canada's charities and nonprofits. We reinforce the sector's collective voice, act as a forum and meeting place and create an environment in which organizations contribute to building stronger communities.

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- Foundation of Greater Montreal
- Habitat for Humanity Canada
- Health Charities Coalition of Canada
- HR Council for the Nonprofit Sector
- National Alliance for Children & Youth
- Philanthropic Foundations Canada
- Pillar Nonprofit Network
- The Salvation Army Canada
- TechSoup Canada
- United Way of Canada
- United Way of Winnipeg
- Vancouver Foundation
- Volunteer Canada
- West Island Community Shares
- YMCA Canada
- YWCA Canada

DATA HIGHLIGHTS

Earned income-generating activities are extremely common among Canadian charities.

- Depending on the data source used and the range of activities examined, somewhere between about one half (58%) and three quarters (77%) of charities engage in some form of earned income-generating activity.
- The range of specific earned income-generating activities is extremely broad (ranging from charging membership fees to providing consulting services and beyond) and most charities that generate earned income engage in more than one specific activity (2.7 on average).

Earned income plays an important role in organizational finance, though it is not dominant for most charities.

- Among charities that engage in earned income generation, the monies produced account for an average of just under one third (31%) of total revenues.
- Three in five earned income-generating charities (60%) report these activities account for 30% or less of total revenues, though a small number of charities generate very large proportions of total revenues from these activities.

Not all charities are equally likely to generate earned income.

- Paid staff size is the single best predictor of whether a charity will engage in earned income, increasing steadily from 62% of charities with no paid staff to 87% of charities with 100 or more paid staff.
- Charities working in some activity areas (e.g., Arts, Culture, Sports, & Recreation) were more likely than others to engage in earned income generation, as were charities from British Columbia.

Earned income-generating activities do not necessarily generate a profit or provide financing for the charity as a whole.

- Just over two fifths of respondents (42%) said their earned income-generating activities produced a surplus, while about one third (31%) reported that they registered a net loss (i.e., they did not at least break even).

- Although earned income is most commonly used primarily to provide general financial support, about one quarter of respondents (24%) said that earned income was used primarily to support particular programs.
- The primary financial role of earned income seems largely to be determined by how large a percentage of total revenues it generates — among charities using earned income to support particular programs, it accounts for an average of about one quarter of total revenues (27%) as compared to two fifths of revenues (39%) among charities where it supports both particular programs and provides general organizational funding.

Charity leaders see greater future potential for earned income, but their expectations are modest.

- Most leaders of earned income-generating charities (85%) predicted that the percentage of total revenues coming from earned income would hold steady or increase over the next three years.
- The average change in earned income predicted over the next three years was an increase of just two percentage points.
- Predictions for the future potential of earned income are primarily driven by previous experience (i.e., whether the charity has experienced an increase or decrease in earned income over recent years) and do not appear to vary significantly with other charity characteristics such as size, activity area and region.

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INTRODUCTION

Earned income has long been an important source of revenue for the charitable sector. Many charities generate significant proportions of their total revenues providing goods and services to a range of customers (e.g., to individuals, businesses, and other charities). Over recent years, there has been increasing interest in generating earned income and many charities are looking to this source to diversify and supplement their revenue streams (Imagine Canada, 2012; Mulholland, Mendelsohn & Shamshiri, 2011). Earned income was identified as a stream of follow-up work under one of the key Priorities for Action (*Diversified and Sustainable Financing of the Sector*) identified by the more than 1,000 charities participating in the National Engagement Strategy (Imagine Canada, 2013). Given the heightened level of interest, we decided to survey charities to benchmark existing earned income-generating activities with the aim of gaining a deeper understanding of what specific types of activities charities are engaging in, their financial impact, how earned income is used to fund charities and individual programs, and the future potential for earned income generation.

For the purposes of this research, *earned income generation* is defined as revenue generating activities that involve selling goods or services to customers. The potential range of goods and services is extremely broad, and includes products, expertise, processes, and intellectual property (Imagine Canada, 2013). Customers may be individuals, groups, businesses, or charitable or nonprofit organizations. In most circumstances, customers will be the end users for the products sold, but this is not necessarily the case. It is important to understand that unlike many existing analyses of earned income in discussions of charity financing, this definition of earned income excludes investment income (Hall et al., 2005; Lasby, 2011).

RESEARCH METHODOLOGY

Data for this study was gathered using a self-administered online survey. Survey participants were executive directors or other senior leaders of registered charities and were recruited via personalized e-mail invitations. Invitations were sent to the leaders of 7,628 registered charities. Each invitation included a personalized link to the survey website where they were able to complete the questionnaire on behalf of their organization. One response was collected for each participating charity. We received usable responses from 2,255 respondents, producing a gross response rate of 30%. The survey was conducted between November 2 and December 3, 2011.

1 Participation was limited to these charities to make the workload more manageable and to facilitate comparison with data from Canada Revenue Agency.

2 For a complete listing of project partners, please see the flyleaf of this report.

Participation in the survey was limited to charities with annual revenues of \$30,000 or more that were not religious congregations.¹ Just over one half of potential survey participants were from a convenience sample drawn from among the memberships of Imagine Canada and 22 partner organizations² and the remaining half were from a randomly drawn sample of Canadian charities. Survey responses have been weighted by revenue size, region, and activity area in order to produce estimates that better reflect the population of in-scope Canadian charities (i.e., charities with annual revenues of \$30,000 or more that are not religious congregations). For a more detailed discussion of how the weighted distribution of survey respondents compares with the distribution of in-scope charities, please see Appendix A.

MAJOR FINDINGS

HOW COMMON ARE EARNED INCOME ACTIVITIES?

3 For a complete listing of individual earned income activities, see Figure 2.

4 The median is the value one gets if one places all responses in order from smallest to largest and then finds the individual response that is halfway through the list of responses. Allowing for ties, one half of earned income charities engaged in a number of activities less than the median value and the other half more than the median.

5 Charities are required to file a T3010 Registered Charity Information Return annually with the Charities Directorate of the Canada Revenue Agency (CRA). Most of the information from these returns is made publicly available by CRA.

A majority of charities generate some portion of their revenue from earned income activities. Just over three quarters (77%) of charities responding to the *Sector Monitor* reported that they engaged in one or more activities.³ Just less than one quarter of charities reported engaging in one activity (see Figure 1), about one fifth in two, and the balance in three or more activities. It is clear that once charities become involved in generating earned income, they tend to become involved in more than one activity. On average, earned income charities engaged in an average of 2.7 individual earned income activities, with a median of 2 activities.⁴

When compared to 2011 T3010 data, it is clear that earned income-generating activities — at least as measured by our survey questionnaire — are somewhat more common among survey respondents than they are among in-scope charities generally.⁵ By way of comparison, just 58% of in-scope registered charities reported receiving revenue from sources that would meet the definition of earned income generation used in this report, sub-

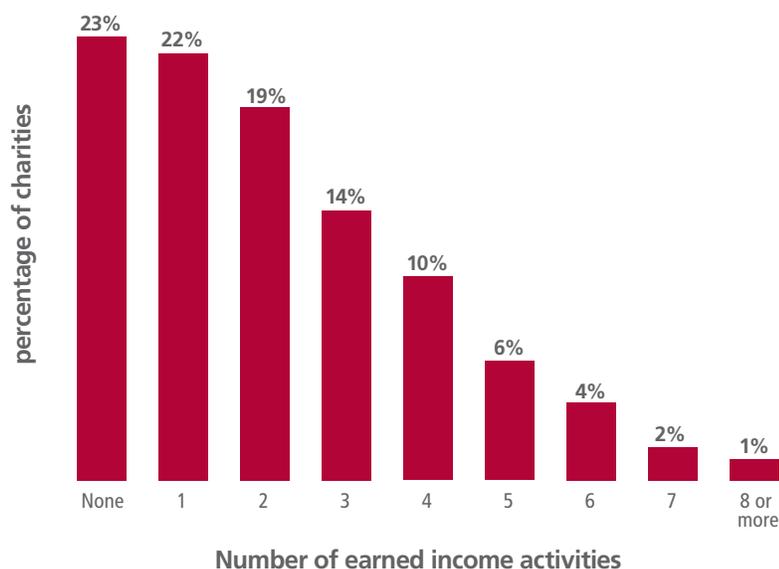


Figure 1. The majority of charities engage in more than one earned income activity.



Figure 2. Charities are involved in a tremendous breadth of earned income activities.

stantially lower than the percentage of survey respondents reporting earned income-generating activities. However, although charities are more likely to report earned income-generating activities on our survey than they are on T3010 returns, we are confident that the survey is a good source of information about the population of interest (i.e., charities that generate revenues through earned income). For more information please see Appendix A, which compares survey findings and T3010 data in greater detail.

The range of specific earned income-generating activities charities engage in is extremely broad. The most commonly reported activities were collecting membership fees (38% of charities) and charging user or program fees (30%; see Figure 2). A bit less than one quarter of charities reported generating earned income by charging various types of rental fees and admission fees. Roughly ten to fifteen percent of charities reported generating earned income via most other methods. Somewhat less common activities included providing consulting services (7% of charities), selling publications such as a newsletter or magazine (5%), and sale of information products (3%). Even with the breadth of possible earned income generating activities specifically covered in the survey, fully one charity in six responded that they engaged in some other activity not explicitly covered by the questionnaire.

Table 1. Degree of investment in earned income activities varies significantly according to the characteristics of charities.

	Percentage of charities engaging in earned income	Average number of earned income activities	Average percentage revenues from earned income
All charities	77%	2.8	31%
DESIGNATION			
Foundation	54%	2.2	32%
Operating charity	82%	2.9	32%
ANNUAL REVENUES			
\$30,000 to \$149,999	76%	2.6	35%
\$150,000 to \$499,999	79%	2.9	31%
\$500,000 to \$1,499,999	79%	2.9	30%
\$1,500,000 to \$4,999,999	83%	3.0	32%
\$5,000,000 or more	72%	3.1	24%
ACTIVITY AREA			
Arts, Culture, Sports & Recreation	99%	3.7	42%
Education & Research	81%	3.0	32%
Health	73%	2.7	23%
Social Services	76%	2.4	28%
Grantmaking & Voluntarism Promotion	57%	2.4	32%
Other	82%	2.6	29%
Unknown	83%	2.9	33%
REGION			
British Columbia	83%	3.0	33%
Alberta	74%	2.9	33%
Prairies	81%	2.9	28%
Ontario	75%	2.7	30%
Quebec	79%	2.7	34%
Atlantic	74%	2.8	33%
PAID STAFF SIZE			
No paid staff	62%	2.2	45%
1 to 4	78%	2.8	30%
5 to 9	79%	2.9	29%
10 to 24	82%	3.0	31%
25 to 99	84%	2.9	29%
100 or more	87%	3.4	30%

ARE SPECIFIC TYPES OF CHARITIES MORE LIKELY TO GENERATE REVENUES VIA EARNED INCOME?

Some types of charities are more likely to report engaging in earned income-generating activities than others. The best single predictor appears to

be paid staff size — as the size of the paid staff complement increases, so too does the likelihood that the charity engages in some type of earned income-generating activity. For example, nearly nine tenths of charities with 100 or more paid staff reported this, as compared to less than two thirds of charities with no paid staff (see Table 1).

The likelihood of engaging in earned income generation also tends to increase somewhat with annual revenue size, with the notable exception of the very largest revenue charities. Over four fifths of charities with annual revenues between \$1.5 and \$4.9 million reported earned income activities, as compared to less than three quarters of charities with revenues of \$5 million or more. This pattern seems somewhat counterintuitive, given that paid staff size and annual revenues are generally very highly correlated in the charitable sector (i.e., charities with large annual revenues tend to have large paid staff complements and charities with small revenues, fewer paid staff). This odd finding seems to be driven by differences in the particular revenue sources the largest organizations tend to draw upon to fund themselves. Charities with annual revenues of \$5 million or higher are more likely than smaller charities to be dependent on gifts and donations for the bulk of their revenue — gifts and donations-dependent charities are less likely than other charities to engage in earned income activities (see textbox: *The role of revenue dependency*).

THE ROLE OF REVENUE DEPENDENCY

The likelihood of engaging in earned income-generating activities varies significantly depending on the specific source charities depend on for most of their revenue. Charities that receive more than half of their revenues from gifts and donations are much less likely to engage in earned income-generating activities. Just two thirds of these charities reported generating earned income, as opposed to about 80% of charities that depend primarily on government or earned income including investment income (See Figure 3). Interestingly, charities that draw on a mixture of revenue sources, without any one area accounting for more than half of total revenue, were most likely to report earned income-generating activities.

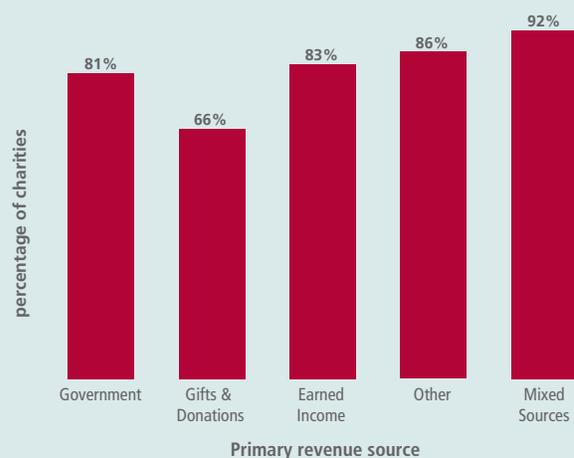


Figure 3. Charities that depend on gifts and donations for most of their revenue are significantly less likely to engage in earned income activities.

Other organizational characteristics also affect the likelihood of engaging in earned income generation. For example, charities working in the area of the Arts, Culture, Sports & Recreation are noticeably more likely to generate earned income, while Grantmaking & Voluntarism Promotion organizations stand out as being much less likely to do so. Substantially all Arts, Culture, Sports & Recreation organizations reported earned income activities, as compared to somewhat over half of Grantmaking & Voluntarism Promotion organizations. Other organization types fell between these extremes, with Health and Social Services organizations being towards the lower end of the range and Education & Research organizations towards the upper. In terms of other significant variations, charities from British Columbia were significantly more likely to report engaging in earned income generation, while foundations were significantly less likely to report doing so. The number of specific earned income activities that charities engage in also tends to vary with the characteristics of charities. Generally speaking, the pattern of variation tends to mirror the pattern seen with the likelihood of engaging in earned income activities at all (i.e., the groups that are most likely to engage in earned income activities tend to engage in larger numbers of activities). For example, operating charities reported engaging in an average of 2.9 specific activities, compared to an average of 2.2 for foundations (see Table 1). Similarly, organizations with no paid staff reported engaging in an average of 2.2 activities, significantly lower than

HOW LONG HAVE CHARITIES BEEN ENGAGING IN EARNED INCOME ACTIVITIES?

In order to assess how established earned income generation is among charities, we asked respondents how many years their organization has been engaging in the earned income-generating activity that produces the most revenue. For most charities, these activities are fairly well established, but not venerable (though there are some impressive exceptions). The average period the highest revenue earned income activity has been in existence is 20 years, with a median value of 15 years. About one quarter of these activities have been in existence for six years or less and three quarters 27 years or less (see Figure 4). About 10% of charities have engaged in their highest revenue activity for more than 40 years.

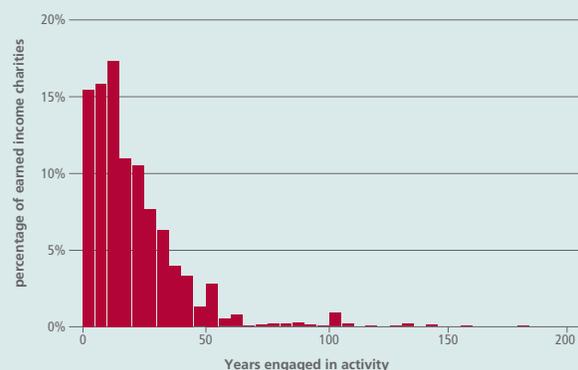


Figure 4. Most charities have engaged in their highest earned income activity for 20 years or less.

charities with paid staff. However, it is important to note that this mirroring was not exact. For example, charities with annual revenues of \$5 million or more reported an average of 3.1 earned income activities, even though they were less likely than smaller charities to engage in earned income activities in the first place. Other groups of charities that particularly stand out include Arts, Culture, Sports & Recreation organizations (an average of 3.7 activities, more than other charities), charities with 100 or more paid staff (3.4 activities), and charities with annual revenues between \$30,000 and \$149,999 (2.6 activities, lower than charities with larger revenues).

HOW MUCH REVENUE DO CHARITIES GENERATE FROM EARNED INCOME?

Earned income is clearly an important source of revenue for many charities. Charities that generated earned income reported that it accounted for an average of 31% of total organizational revenues, with a median value of 20% of total revenues. Just over 60% of organizations reported that earned income accounted for 30% or less of total revenues, though it played a larger role for many organizations (see Figure 5). Interestingly, just over one in twelve charities reported that earned income accounted for 90% or more of total revenues. These values are quite comparable to the values seen in 2011 T3010 data. There, in-scope charities reported that earned income accounted for an average of 28% of total organizational revenues, with a median of 16%.

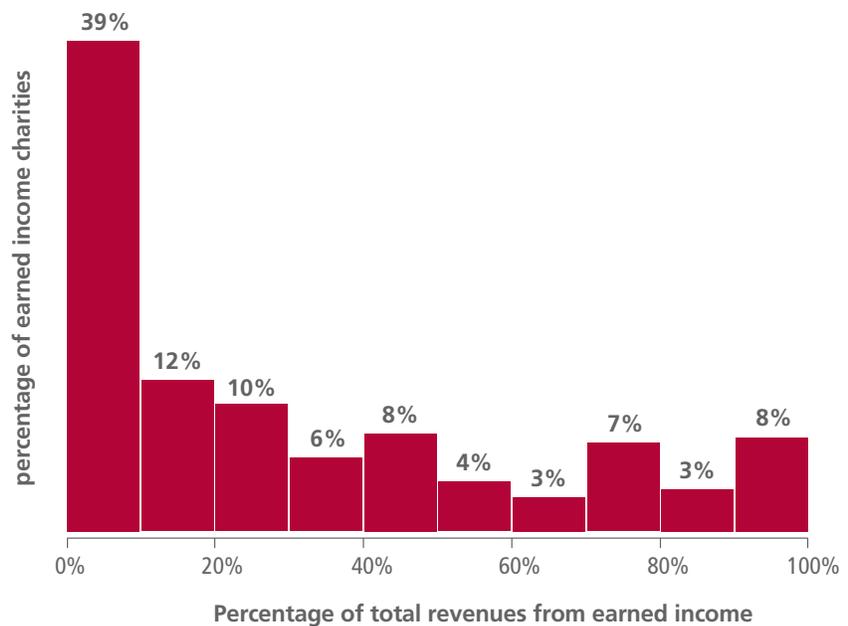


Figure 5. Earned income accounts for one third or less of total revenues for most charities.

The financial importance of earned income varies significantly between different types of charities. For example, earned income accounts for a significantly larger average percentage of total organizational revenues among Arts, Culture, Sports & Recreation charities than it does among charities working in other activity areas and it tends to play the smallest role among Health charities (see Table 1). Interestingly, although the smallest organizations (those with annual revenues less than \$150,000 and no paid staff) are less likely than larger organizations to engage in earned income-generation activities, when they do these activities tend to account for larger percentages of their total organizational revenues. Among charities with annual revenues of \$5 million or more, earned income accounted for an average of just 24% of total organizational revenues. One of the very best predictors of the percentage of total revenues charities generate from earned income activities is how long the charity has been engaging in these activities. On average, charities that have engaged in their highest earned income generating activity for five years or less derived approximately 19% of total organizational revenues from earned income (see Figure 6). Conversely, charities that have engaged in their highest revenue

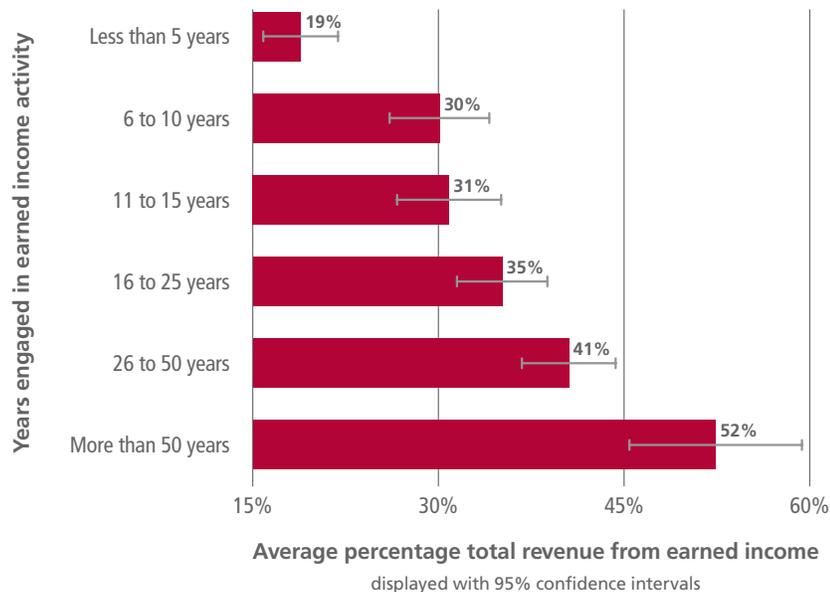


Figure 6. The percentage of total revenues from earned income increases with the length of time the charity has been engaging in earned income activities.

generating activity for more than 50 years derived just over half (52%) of total revenues from earned income. Earned income appears to plateau among organizations that have engaged in the activity for between six and 15 years,

accounting for about 30% of total revenues, and then begins to increase among charities that have carried out these activities over longer periods.

WHAT ROLE DOES EARNED INCOME PLAY IN FINANCING CHARITIES AND PROGRAMS?

For most charities, earned income-generating activities either produce a profit or cover costs. Just over two fifths of charities engaging these activities said that they generated a surplus, while around one quarter said they broke about even (see Figure 7). Just under one third said the activities produced a deficit (i.e., that the revenues generated did not fully cover the costs associated with the activity). In terms of how earned income generated revenues are used by organizations, for most charities they are used to fund the organization as a whole, as opposed to funding specific programs. Just over half of charities reported that revenues from the earned income activity that generated the most revenue were used as a source of general support for the organization, while about one quarter said they were used to fund specific programs. The remaining fifth of charities said that revenues were used for both purposes (see Figure 8).

Earned income tends to play quite similar roles among most types of charities — very few groups stand out as being statistically different from the rest in terms of their responses to these questions. Grantmaking & Voluntarism

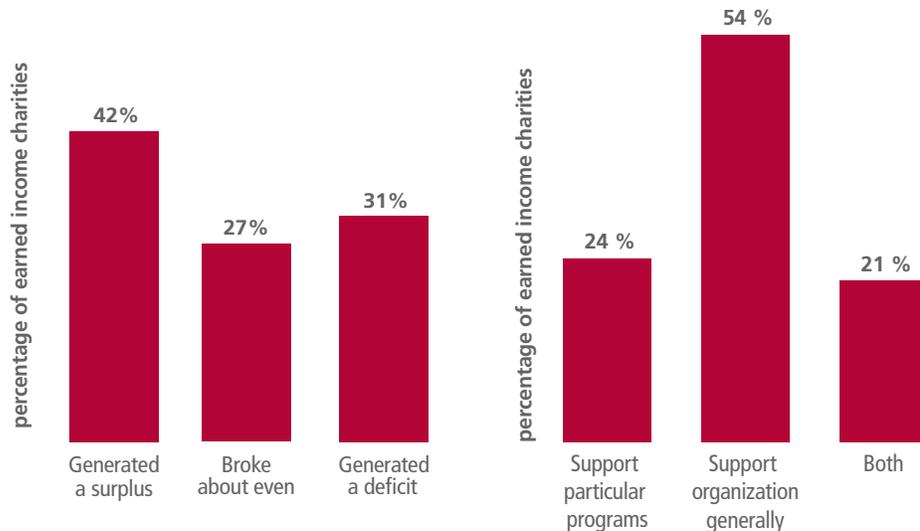


Figure 7. Most charities reported that earned income activities generate a surplus or break even.

Figure 8. For most charities, revenues from earned income activities are used to support the organization as a whole.

Promotion organizations were somewhat more likely to report that their earned income activities generated a surplus than were charities working in other activity areas (see Table 2). Charities in Alberta were more likely than

Table 2. There is remarkably little variation in the role of earned income by charity characteristics.

	Net financial contribution of earned income activities			Financial role of earned income activities		
	Deficit	Break Even	Surplus	Particular Programs	General Funding	Both
All charities	31%	27%	42%	24%	54%	21%
DESIGNATION						
Foundation	14%	23%	62%	28%	48%	24%
Operating charity	33%	27%	40%	24%	55%	21%
ANNUAL REVENUES						
\$30,000 to \$149,999	33%	24%	43%	21%	58%	20%
\$150,000 to \$499,999	28%	29%	43%	24%	53%	24%
\$500,000 to \$1,499,999	34%	25%	41%	27%	52%	22%
\$1,500,000 to \$4,999,999	27%	27%	46%	27%	54%	19%
\$5,000,000 or more	29%	35%	36%	34%	46%	20%
ACTIVITY AREA						
Arts, Culture, Sports & Recreation	39%	26%	35%	16%	56%	28%
Education & Research	38%	31%	32%	36%	48%	16%
Health	30%	31%	39%	30%	52%	18%
Social Services	35%	26%	40%	25%	55%	21%
Grantmaking & Voluntarism Promotion	15%	25%	60%	27%	50%	22%
Other	24%	24%	52%	21%	60%	18%
Unknown	27%	30%	43%	20%	56%	24%
REGION						
British Columbia	35%	26%	40%	26%	51%	23%
Alberta	41%	22%	37%	24%	53%	23%
Prairies	32%	25%	43%	27%	53%	20%
Ontario	28%	29%	42%	23%	54%	23%
Quebec	28%	27%	46%	25%	58%	18%
Atlantic	28%	29%	43%	23%	55%	22%
PAID STAFF SIZE						
No paid staff	20%	24%	56%	24%	55%	22%
1 to 4	31%	26%	43%	19%	59%	22%
5 to 9	30%	27%	43%	26%	55%	19%
10 to 24	36%	28%	35%	25%	50%	25%
25 to 99	36%	25%	38%	36%	50%	14%
100 or more	26%	36%	38%	29%	42%	29%

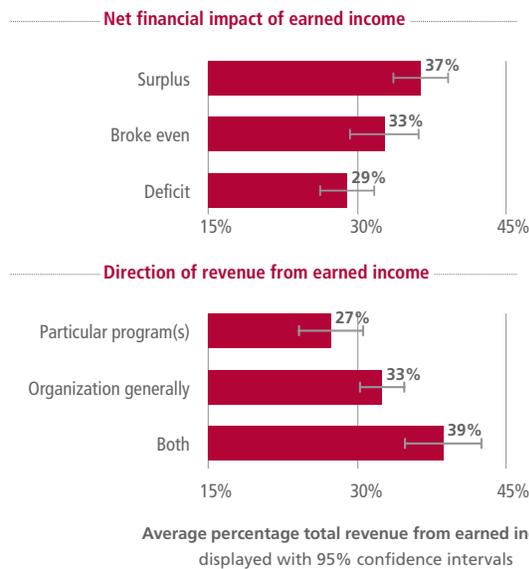


Figure 9. The average percentage of total organizational revenues from earned income varies significantly with role.

charities in other regions to report that their earned income activities ran a deficit and did not cover their associated costs. Finally, charities with no paid staff were somewhat more likely than charities with paid staff to report that earned income activities generated a surplus, while charities with 100 or more paid staff were more likely than most groups of charities with fewer paid staff to report that their activities broke about even. There were also few differences between groups of charities according to the financial role earned income plays. Charities with annual revenues of \$5 million or more were more likely than charities with annual revenues of less than \$500,000 to report that earned income mainly funded particular programs. The same was true of charities working in the area of Education & Research, as compared to charities working in most other activity areas. Conversely, charities working in the area of Arts, Culture, Sports & Recreation were less likely to report that earned income funded particular programs. Charities with 100 or more paid staff were less likely than charities with fewer than 10 paid staff to report that earned income provided general funding for the organization.

Unsurprisingly, earned income-generating activities accounted for larger percentages of total organizational revenues among charities reporting that these activities produced a net surplus than they did among other organizations. On average, earned income generation accounted for 37% of total revenues among charities that produced a surplus, as compared to 29% among charities that produced a deficit. Similarly, the primary financial role of earned income-generating activities appears to vary ac-

ording to how large a percentage of total organizational revenues they account for. Charities saying that revenues from earned income provided both general funding for the organization and supported particular programs reported that earned income accounted for an average of 39% of total organizational revenues, as compared to an average of 27% for charities that used earned income only to support particular programs.

WHAT IS THE FUTURE POTENTIAL FOR EARNED INCOME?

To provide insight into the future potential of earned income, we asked charity leaders to estimate the percentage of their organization's total revenues they thought would be coming from earned income in three years' time. By comparing this figure with the current percentage of revenues from earned income, we are able to determine the extent to which leaders predicted earned income would increase or decrease over the next few years. Overall, leaders generally seem to think that the future potential for earned income is positive, but modestly so. Collectively, they predicted that in three years' time earned income would account for an average of

EARNED INCOME AND SOCIAL ENTERPRISE

Over the past several years, social enterprise has received increasing attention. However for all this attention, there appears to be little specific agreement among sector practitioners as to what specific activities should be defined as social enterprise. As part of our survey, we asked charity leaders whether they considered any of their earned income-generating activities to be social enterprises. Almost one third indicated that they considered one or more of their activities to be a social enterprise, while nearly half disagreed (see Figure 10). The lack of agreement as to the boundaries of the term can clearly be seen in the fact that over one respondent in five was uncertain whether the label applied to their activities. The likelihood of identifying any earned income-generating activities as social enterprise varies from charity to charity. For example, charities working in the area of Arts, Culture, Sports & Recreation were more likely than most

other charities to identify as engaging in social enterprise, while Health charities were particularly unlikely to do so, as were charities in Ontario. In terms of variation by organization size, there was no discernable patterning by revenue size, but the likelihood of considering activities to be social enterprise increased steadily with paid staff size.

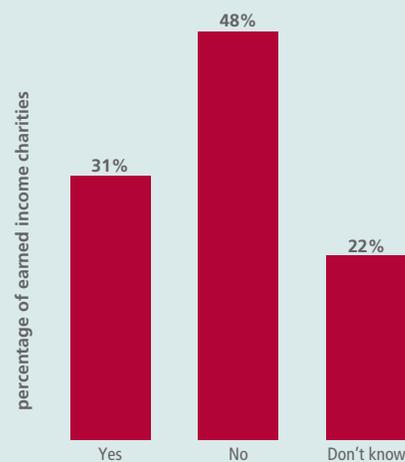


Figure 10. Most charity leaders do not view their earned income generating activities as social enterprises.

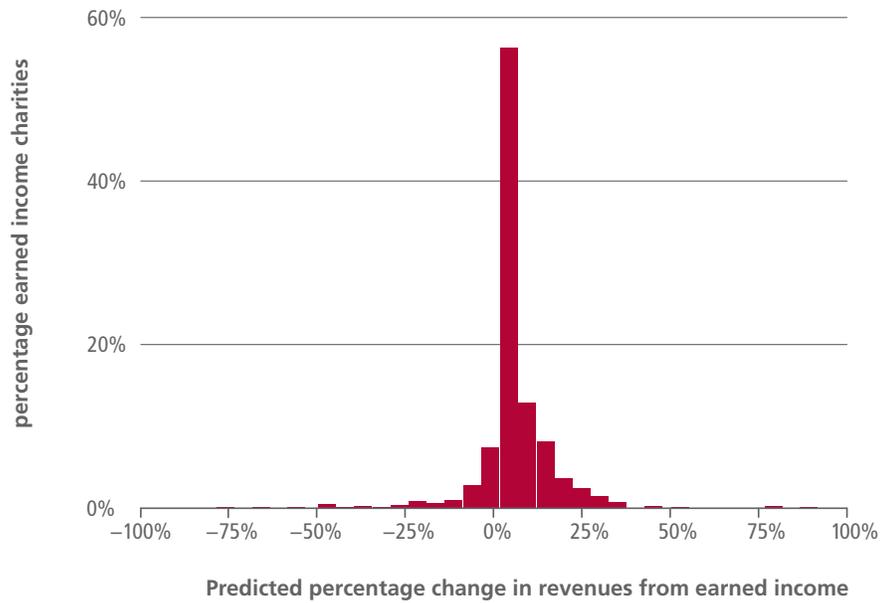


Figure 11. Most charity leaders predict that the percentage of organizational revenues from earned income will hold steady or increase slightly over the next three years.

just over two more percentage points of total revenue (e.g., that earned income generated revenue would increase from 31% of total revenues to 33%), with a median value of 0. Although leaders as a group predicted a net increase in revenues from earned income generation, not all leaders did so. Just less than 15% predicted that the percentage of total revenues coming from earned income generation would decrease over the next three years, while 43% predicted that the financial role of earned income would hold steady (see Figure 11). Among the 42% of leaders who predicted that earned income would play a larger role in three years, half predicted that the percentage of total revenues derived from earned income generation would increase by less than 5 percentage points. Just 5% of leaders predicted that the percentage of total revenues their charity derives from earned income would increase by more than 15 percentage points.

There is little to indicate that particular groups of charities have significantly different predictions with regards to the future potential of earned income. Although the average predicted changes vary from group to group, only a few of the inter-group differences are statistically significant. For example, there appears to be no statistically significant trend with regards to predicted changes in earned income by size of annual revenues (see Table 3). Similarly, the only statistically significant differences to be seen by paid staff size are that the average predicted change

among charities with no paid staff was 0%, as opposed 2.5% among charities with 1 to 4 paid staff, 3.0% for charities with 5 to 9 paid staff and 2.6% for charities with 25 to 99 paid staff. Other inter-group differences along the dimension of paid staff size did not rise to the level of statis-

Table 3. There are few meaningfully different predictions with regards to predicted earned income.

	Direction of predicted change			Predicted percentage change in total revenues from earned income
	Decrease	Remain about same	Increase	
All charities	15%	43%	42%	2.1%
DESIGNATION				
Foundation	15%	51%	35%	0.8%
Operating charity	15%	42%	43%	2.3%
ANNUAL REVENUES				
\$30,000 to \$149,999	14%	52%	35%	1.9%
\$150,000 to \$499,999	16%	38%	46%	2.2%
\$500,000 to \$1,499,999	12%	36%	52%	3.1%
\$1,500,000 to \$4,999,999	21%	40%	39%	1.2%
\$5,000,000 or more	10%	48%	42%	1.9%
ACTIVITY AREA				
Arts, Culture, Sports & Recreation	13%	45%	42%	2.8%
Education & Research	11%	50%	40%	2.1%
Health	14%	45%	41%	2.4%
Social Services	17%	41%	42%	1.8%
Grantmaking & Voluntarism Promotion	15%	46%	38%	1.2%
Other	16%	41%	43%	2.0%
Unknown	15%	34%	51%	2.6%
REGION				
British Columbia	12%	43%	45%	2.5%
Alberta	16%	44%	40%	2.9%
Prairies	6%	48%	45%	2.6%
Ontario	16%	42%	43%	2.1%
Quebec	18%	42%	39%	0.7%
Atlantic	13%	46%	41%	4.1%
PAID STAFF SIZE				
No paid staff	21%	56%	23%	0.0%
1 to 4	13%	43%	44%	2.5%
5 to 9	16%	37%	47%	3.0%
10 to 24	15%	40%	45%	1.8%
25 to 99	8%	46%	46%	2.6%
100 or more	18%	43%	38%	1.5%

tical significance. This is generally the case for all other possible groupings of charities (i.e., by primary activity area, region, and designation).

Even when predicted changes in earned income are reduced to the level of directionality (i.e., whether earned income will increase, decrease, or remain about the same), there are few clear patterns to be seen. A few isolated groups of charities do stand out, but there are few to no identifiable trends. For example, operating charities are statistically more likely to predict increases in the percentage of total revenues that will be coming from earned income (about 43% predicted this, as opposed to 35% of foundations; see Table 3). Similarly, charities in the Prairies were significantly less likely than charities in other regions to predict a decline in the role of earned income and charities with no paid staff were less likely to predict an increase. However, there were no statistically significant identifiable trends along dimensions such as organization size – the smallest charities were more likely than others to predict that the role of earned income would hold steady while those with annual revenues between \$500,000 and \$1,499,999 were more likely than others to predict an increase, and those with annual revenues between \$1.5 million up to just under \$5 million were more likely than larger and smaller charities to predict a decrease. In sum, there is very little evidence to suggest that the usual demographic characteristics of charities play a predictable role in future earned income potential, at least in the opinion of their leaders.

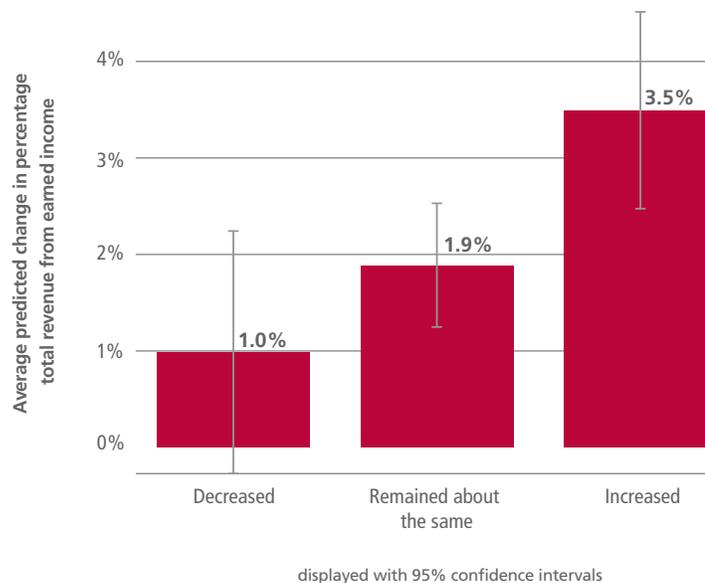


Figure 12. Predictions of future changes in earned income appear to be based on prior experience.

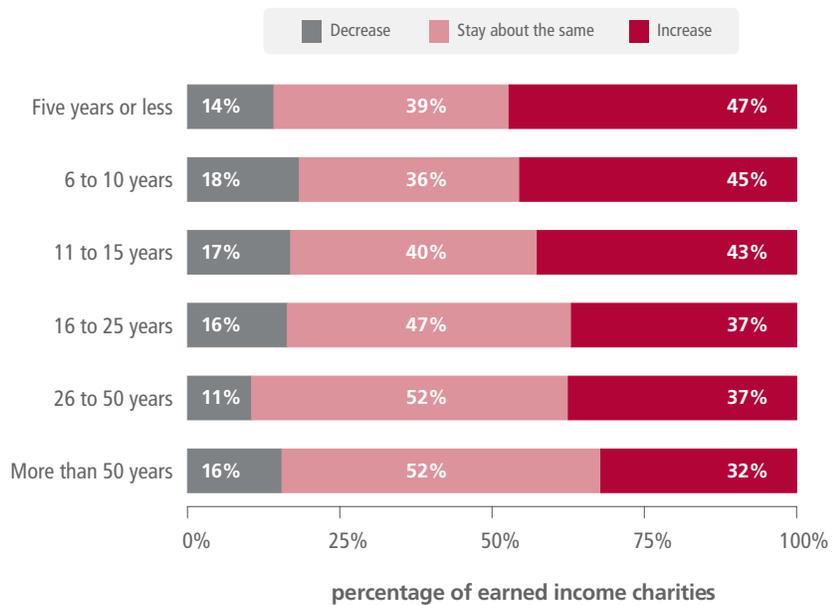


Figure 13. Charities that have been involved in earned income generation for longer periods are more restrained in the optimism of their predictions.

Although the demographic characteristics of charities do not seem to greatly influence predictions of the potential of earned income, other aspects of earned income generation do appear to correlate with predictions of the potential of earned income. For example, leaders who report previous increases in the percentage of organizational revenue coming from earned income-generating activities tend to predict larger increases in the percentage of organizational revenues from earned income over the next three years. Those who had experienced an increase in revenues from earned income generation predicted that the percentage of total revenues from earned income-generating activities would increase by an average of 3.5%, as compared to the average increase of 1.0% reported by those who had experienced a decrease (see Figure 12). Similarly, the likelihood of predicting that earned income-generating activities will play a consistent role in organizational finances appears to increase with the length of time charities have been engaged in the activity. Just over half of charities that had engaged in the activity that generated the most revenue for more than 25 years predicted no change in the percentage of total organizational revenues from earned income generation, as compared to 39% of charities engaged in the activity for five years or less (see Figure 13). Charities that have been involved in activities for shorter periods of time are significantly more optimistic. Nearly half of charities engaged in activities for five years or less predicted increases, as compared to just under one third of charities that have been involved for more than 50 years.

SUMMARY AND CONCLUSION

From the preceding sections of this report, it is clear that earned income generation is extremely prevalent among Canadian charities and it is a key element of the revenue mosaic for many charities. Given that most observers are generally pessimistic about the potential of significant increases in funding from other sources (i.e., government and gifts and donations) over the medium-term (Mulholland et al., 2011), the currently heightened interest about the potential of earned income generation is entirely understandable.

However, the findings presented here make it clear that the potential of earned income should not be viewed uncritically by sector thought leaders and stakeholders. The fact that earned income appears to be significantly less attractive among some groups of charities (e.g., those with no paid staff) indicates that it is not universally applicable. The generally modest financial role for earned income generation among most charities suggests that large-scale shortfalls in other revenue sources could be quite difficult for most organizations to bridge with earned income. Similarly, while the increases in the average financial role of earned income indicate that earned income generation can represent a sustainable revenue strategy for at least some charities, the increases over time are generally fairly small. This seems to indicate that it will be difficult for charities to grow revenues from earned income quickly enough to cover for declines or even stasis in other revenue streams. This interpretation is buttressed by the predictions of charity leaders, who collectively see the financial importance of earned income increasing by an average of just two percentage points over the next three years. It is potentially telling that the leaders of charities that have practiced earned income generation for the longest periods, who are generally more successful at financing their charities via earned income, are also most conservative in their predictions of a greater financial role for earned income.

APPENDIX A

Comparison of Sector Monitor Data and T3010 Data

6 Just over 34,000 registered charities were identified as being in-scope in 2011 (i.e., they had annual revenues of \$30,000 or more and were not religious congregations).

In order to gain greater insight into how respondents to our survey compare to charities more broadly, we compared survey responses with data from the 2011 T3010 Registered Charity Information Returns of in-scope charities.⁶ Briefly, it seems that respondents to our survey are somewhat more likely to report engaging in earned income-generating activities than charities generally. Just over three quarters of survey respondents reported that they engage in earned income-generating activities, while just over half of in-scope charities reported receiving revenues from sources that would meet the definition of earned income-generating activities used in this research (see Figure A-1). We believe that these differences are due mainly to two factors:

1. The survey questionnaire covers a much larger number of specific earned income activities than does the T3010 return. This is likely to have led to a higher reported rate of earned income-generating activities, though it does not explain the differences with regards to membership fees and rental income (see Figure A-1).

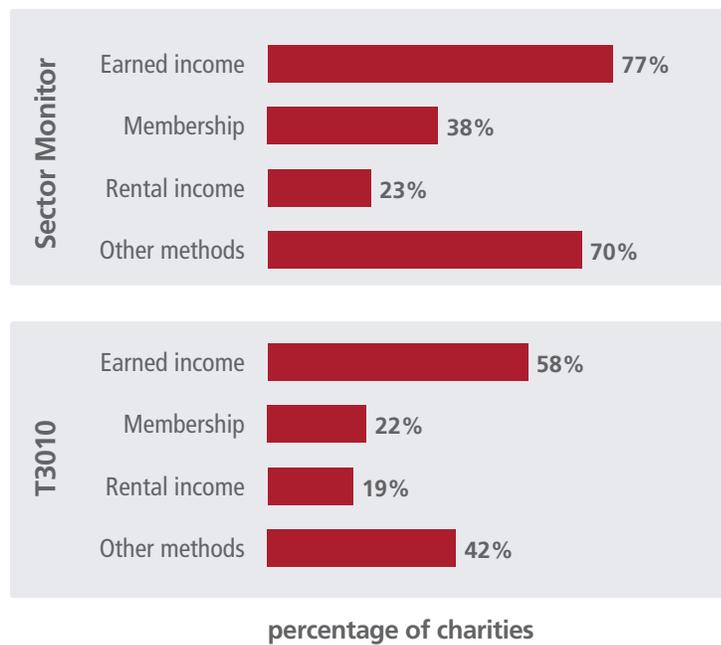


Figure A-1. Comparison of Earned Income Activities, Sector Monitor Survey vs. T3010 Information Returns.

2. Charities with larger paid staff complements are over-represented in the survey sample, as compared to the population of in-scope charities generally (see Table A-1). As described in the main body of the report, staff size is an important driver of how likely a given charity is to engage in earned income activities. Organizations with large staff complements are much more likely to generate earned income. Given that they are significantly over-represented in the survey sample, this likely accounts for much of the difference in the observed rates.

Table A-1. Distribution of Sector Monitor survey respondents and in-scope Registered Charities by key demographic characteristics.

	Survey	T3010
DESIGNATION		
Foundation	16%	16%
Operating charity	84%	84%
ANNUAL REVENUES		
\$30,000 to \$149,999	37%	36%
\$150,000 to \$499,999	27%	27%
\$500,000 to \$1,499,999	18%	18%
\$1,500,000 to \$4,999,999	10%	10%
\$5,000,000 or more	8%	8%
ACTIVITY AREA		
Arts, Culture, Sports & Recreation	15%	15%
Education & Research	12%	12%
Health	10%	11%
Social Services	25%	32%
Grantmaking & Voluntarism Promotion	18%	18%
Other	13%	12%
Unknown	8%	0%
REGION		
British Columbia	15%	15%
Alberta	11%	10%
Prairies	9%	9%
Ontario	34%	34%
Quebec	23%	24%
Atlantic	8%	8%
PAID STAFF SIZE		
No paid staff	15%	33%
1 to 4	36%	21%
5 to 9	18%	12%
10 to 24	15%	14%
25 to 99	10%	13%
100 or more	7%	7%

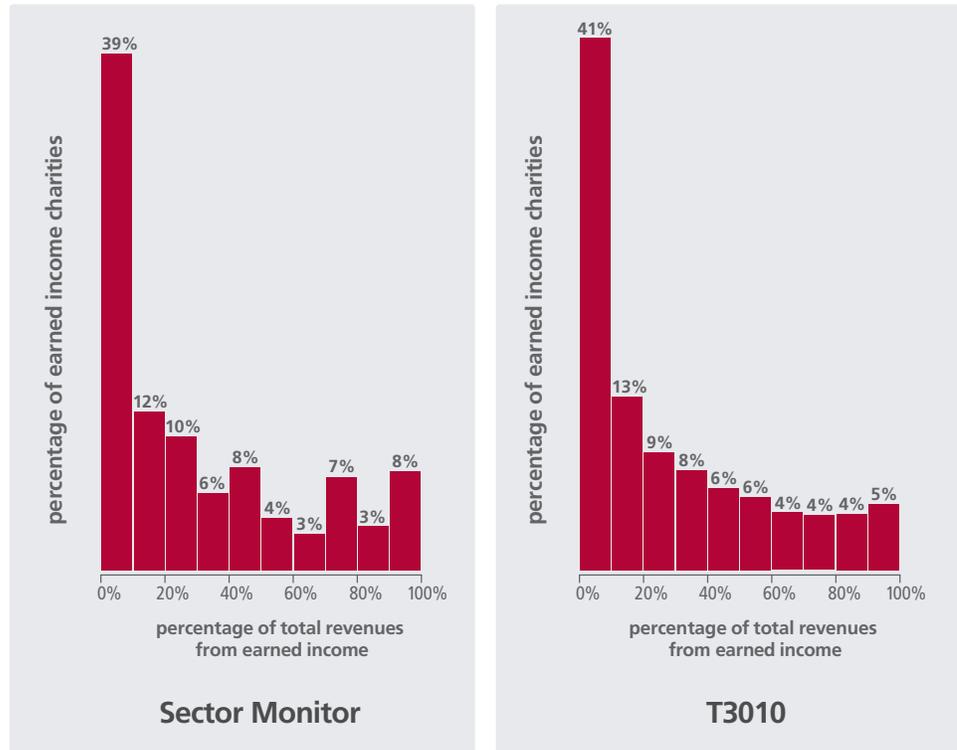


Figure A-2. Distribution of charities by percentage of total revenues derived from earned income, Sector Monitor survey vs. T3010 Information Returns.

Although survey respondents are more likely to engage in earned income generation, earned income appears to be about as financially important among survey respondents as among charities generally. Earned income accounted for an average of 31% of annual revenues among survey respondents, compared to 28% among in-scope charities. Additionally, allowing for differences in sample size, the distributions of the percentages of total revenue coming from earned income among survey respondents and in-scope charities are virtually identical (see Figure A-2). Given this similarity and given the similarity in the distributions of different types of charities due to our weighting strategy (see Table A-1), we can see no reason to believe that earned income-generating survey respondents differ from earned income-generating charities more generally.

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