

Imagine Canada's Sector Monitor

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Foreword

When we began the *Sector Monitor* program three years ago, our overarching aim was to obtain regular, ongoing insight into the health and vitality of the sector. One important aspect of this has been monitoring developments as the sector has worked its way through the ongoing recovery after the recession of 2008-2009. However, another key aspect has been surveying charity leaders to assess their confidence in the future and, in this report, this aspect of the program comes to the fore.

Although past *Sector Monitors* have generally shown a slow recovery from the economic downturn and have usually been fairly optimistic in their outlook for the future, we are increasingly seeing signs that confidence among charity leaders has dropped:

- The percentages of charity leaders predicting they will be weaker in the short- and medium-terms have roughly doubled.
- Similarly, the percentages of charities predicting decreased revenues, expenditures, and paid staff have all risen.

In conjunction with this, we see some signs that pressures on organizations have likely increased:

- More organizations are reporting that revenues have remained stagnant and fewer are reporting increased expenditures—we interpret this as organizations controlling spending in the face of lower or less certain revenues.
- Slightly more leaders are predicting their organization will have difficulty covering expenses at some point between four months and one year from now.
- More organizations are reporting demand for their products and services has increased.

Collectively, these findings reflect a general sense that the sector will be facing even greater challenges in the coming year. While this is not welcome news, it is important that we, as leaders of sector organizations, be aware of it. It is also important that our boards, our funders, and our other supporters are made aware of this, so we are all better able to plan and deal with the challenges and opportunities that lie ahead.

Marcel Lauzière
President & CEO Imagine Canada



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 and 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

We would like to thank the 2,194 charity leaders from across Canada and from across the sector who responded to the *Sector Monitor* and the thousands who downloaded previous *Sector Monitors*. The success of this research is due to your contributions and we are very grateful for the time you took to participate and to consider our findings.

Photos featured on the cover of this version of the *Sector Monitor* courtesy of Imagine Canada members: Canadian Cancer Society, Alberta; Big Brothers Big Sisters, Toronto; and Habitat for Humanity, Edmonton.

Highlights

Confidence levels among charity leaders have declined over the previous year.

- The percentages of leaders predicting that their organizations will be weaker in terms of their ability to perform their mission over the near- and mid-term are the highest they have been since we began surveying charities.
- Similarly, the percentages of leaders forecasting increased revenues, paid staff, and expenditures are at record lows.

Economic and human resources do not appear to have increased significantly.

- More charities are reporting that revenues have remained about the same compared to last year.
- At the same time, fewer charities are reporting that expenditures have increased, which we interpret as efforts to curtail spending.

- Trends in human resources—both paid and volunteer—show no significant change compared to one year ago.

There are signs that pressures on organizations may be increasing.

- The percentage of charities predicting that they will experience difficulties covering expenses at some point between three months and a year from now has increased slightly.
- More charities are reporting that demand for their products and services has increased.

Although pressures may be increasing, this does not yet seem to have translated into higher stress levels.

- The number of charities under high stress remains constant, as do the number of charities that are currently reporting difficulty fulfilling their mission or that their existence is at risk.

Introduction

The *Sector Monitor* survey program is intended to provide sector leaders and stakeholders with information about the current state of the sector. Six times over the past three years, it has surveyed charity leaders about their recent experiences carrying out the missions of their organizations, changes in operating conditions and predictions for the future. Throughout that time, tracking the many impacts and after-effects of the economic downturn of late 2008 has been a consistent focus. This edition of the *Sector Monitor* builds on this.

A total of 2,194 leaders of registered charities responded to this edition of our online survey, which was conducted between June 19 and August 10, 2012.¹ Responses have been weighted by region, organization size, and activity area to produce estimates that are more representative of Canadian charities as a whole. Beginning with the fourth wave of the *Sector Monitor*, we supplemented our core sample drawn from the memberships of our partner organizations with a new sample drawn randomly from among Canada's registered charities. This new sample changed the characteristics of the respondent pool, so this

¹ This edition of the survey was sent to the leaders of 6,370 registered charities, producing a gross response rate of 34%. Participation was limited to charities with annual revenues of \$30,000 or more that were not religious congregations. We limit participation to registered charities in order to allow for comparison with information available from Canada Revenue Agency.

Figure 1: The percentage of organizations reporting an increase in demand has risen, while other factors have held steady.

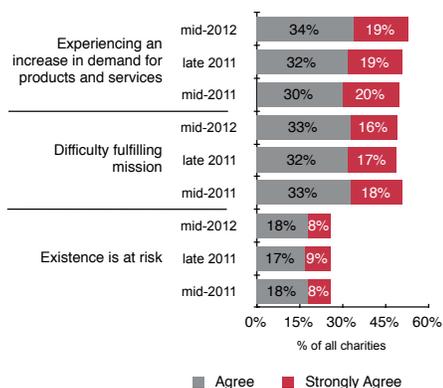


Figure 2: The percentage of organizations predicting difficulty covering expenses at some point between 4 to 12 months from now has increased.

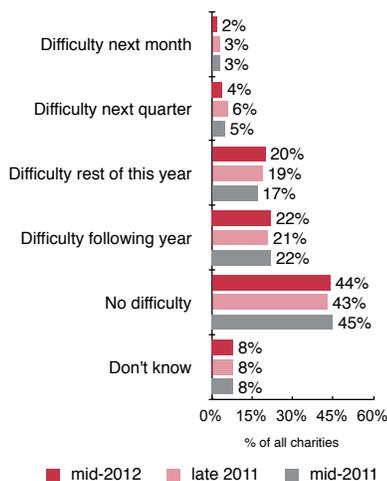
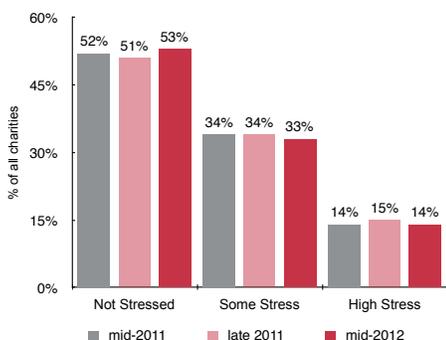


Figure 3: Stress levels appear to be holding steady.



² Significance = 0.057. Unless otherwise noted, in this report we discuss only differences between groups of charities and editions of the *Sector Monitor* that are statistically significant at the 0.05 level. However, not every statistically significant difference is discussed in the text.

³ Significance = 0.068.

report will focus on drawing comparisons between the fourth, fifth and sixth waves of the survey.

Impact of Current Economic Conditions

Currently, charity leaders are slightly more likely than they were in the past to report both increased demand and difficulty covering expenses over the near term. However, this does not seem to be resulting in significant increases to organizational stress.

As in previous editions of the *Sector Monitor*, roughly half of charity leaders said current economic conditions meant their organizations were having difficulty fulfilling their missions and about a quarter said conditions put their organization's existence at risk (see Figure 1). While these challenges seem to have remained fairly constant since mid-2011, the percentage of leaders reporting increased demand for their organization's products and services has risen steadily over the same period, from 50% to 53%.²

As with previous versions of the survey, almost half of charity leaders said they expect to have difficulty covering expenses at some point within the next two years (see Figure 2). As before, they were most likely to see challenges between one and two years from now. However, the percentage of leaders predicting difficulty at some point between four months and a year into the future appears to have increased slightly.³ This shift suggests charities may be undergoing changes with regard to their financial resources.

STRESS LEVELS

The trends described above do not appear to be driving significant changes to stress levels in the charitable sector. Currently, about one charity in seven appears to be under high stress, one in three is under some stress and the remaining half show no significant signs of being under stress, at least as measured by our questions (see Figure 3). These figures have remained consistent since at least mid-2011.

While the percentage of organizations under high levels of stress seems to be fairly low, it is important to note that some specific types of charities appear to be under more stress than others. For example, operating charities were more likely than foundations to report being under high stress (see Table 1). Other groups of charities that were statistically more likely to report being under high stress included:

- charities with annual revenues between \$150,000 and \$499,999;

- Health organizations;
- organizations from British Columbia; and
- organizations with between one and four paid staff members.

Conversely, some charities appear to be under less stress, including:

- Philanthropic Intermediaries and Voluntarism Promotion organizations;

TABLE 1: Patterns of organizational stress remain largely unchanged.

	Not Stressed	Some Stress	High Stress
All Charities	53%	33%	14%
DESIGNATION			
Operating charity	49%	35%	16%
Foundation	71%	24%	4%
ANNUAL REVENUES			
\$30,000 to \$149,999	51%	32%	17%
\$150,000 to \$499,999	48%	32%	21%
\$500,000 to \$1,499,999	53%	37%	10%
\$1,500,000 to \$4,999,999	58%	35%	7%
\$5,000,000 or more	65%	29%	5%
ACTIVITY AREA			
Arts, Culture, Sports & Recreation	54%	30%	16%
Education & Research	51%	37%	12%
Health	49%	30%	21%
Social Services	42%	41%	16%
Philanthropic Intermediaries & Voluntarism	71%	25%	4%
Other	52%	32%	16%
Unknown	48%	34%	18%
REGION			
BC	49%	33%	18%
AB	64%	27%	9%
PR	70%	23%	7%
ON	51%	36%	13%
QC	46%	37%	17%
AT	45%	36%	19%
PAID STAFF SIZE			
No paid staff	66%	27%	7%
1 to 4	49%	33%	18%
5 to 9	49%	33%	18%
10 to 24	45%	41%	15%
25 to 99	55%	35%	10%
100 or more	67%	28%	5%

- organizations located in Alberta or the Prairies;
- charities with annual revenues of \$500,000 or more; and
- organizations with either no paid staff or more than 24 paid staff.

These patterns are consistent with patterns of stress seen in previous *Sector Monitors*, which suggests that there may be systemic factors driving stress levels for many groups of charities. In terms of change over time, there are only two statistically significant trends. Since mid-2011, there are more charities under high stress in Atlantic Canada and fewer in the Prairies.

THE BOTTOM LINE: FINANCIAL AND HUMAN RESOURCES

Charities depend on financial and human resources to conduct their day to day activities. Shifts in the availability of these resources can obviously have significant effects on the ability of organizations to carry out their missions. With this in mind, the *Sector Monitor* asks leaders to assess changes in their charity's human and financial resources compared to one year ago.

Financial resources. Currently, just over half of charity leaders report that revenues are about the same as one year ago; just under one quarter say they have increased and just over one quarter, decreased (see Table 2). In terms of expenditures, almost half report no change compared to one year ago; just over two fifths say they have increased and one tenth, decreased. In terms of trends, more charity leaders are currently reporting that revenues have remained about the same than in mid-2011 and fewer are reporting increased expenditures. This suggests that some charities may be consciously reducing expenditures in response to stagnating or even declining revenues.

TABLE 2: About half of charity leaders reported that revenues and expenditures remained about the same over the previous year.

	mid-2011	late 2011	mid-2012
REVENUES			
Increased	26%	22%	22%
Remained about the same	47%	51%	53%
Decreased	27%	27%	26%
Average change	0.77%	-0.66%	-0.61%
EXPENDITURES			
Increased	46%	49%	42%
Remained about the same	44%	39%	48%
Decreased	10%	12%	10%
Average change	5.45%	4.74%	4.06%

Human resources. About two thirds of charity leaders report that the number of paid staff their organization employs remains about the same as one year ago and they are somewhat more likely to report that paid staff numbers have increased, as opposed to decreased (see Table 3). The volunteer picture is quite similar, with the only significant difference being that leaders are even more likely to report that volunteer levels have remained about the same. There appear to be no statistically significant trends in the volunteer figures.

TABLE 3: The dominant human resources picture is stability, for both paid staff and volunteers.

	mid-2011	late 2011	mid-2012
PAID STAFF			
Increased	21%	21%	22%
Remained about the same	66%	65%	64%
Decreased	13%	14%	14%
Average change	4.20%	3.18%	3.66%
VOLUNTEERS			
Increased	22%	21%	20%
Remained about the same	67%	68%	68%
Decreased	11%	11%	11%
Average change	3.37%	2.38%	2.12%

Figure 4: Charity leaders are less optimistic about the future.

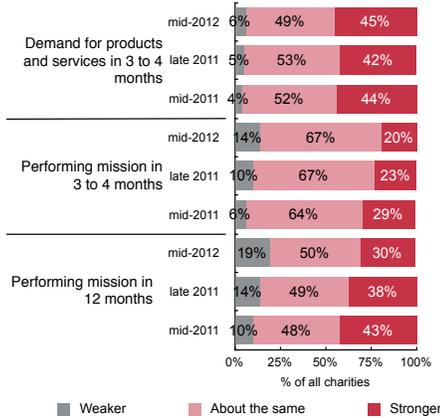
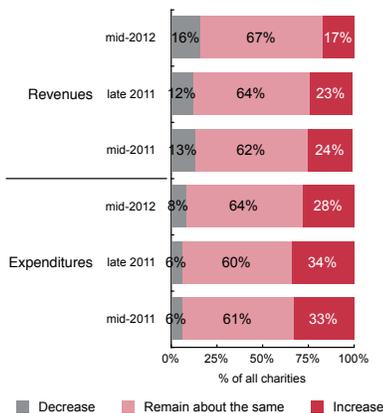


Figure 5: The percentages of leaders predicting increases in both revenues and expenditures have dropped from mid-2011.



Confidence in the Future

The results of this *Sector Monitor* show clear evidence of a loss of confidence among Canada's charity leaders over the past year. Since mid-2011, the percentages of leaders predicting that their charity will be weaker in terms of being able to carry out its mission over the near- and medium-terms⁴ have roughly doubled, while the percentages predicting that they will be stronger have decreased commensurately (see Figure 4).

Leaders are also more pessimistic about the financial future of their charities. Currently, just under one fifth of leaders predict that their organization's revenues will increase over the next three to four months and less than one third predict that expenditures will increase (see Figure 5). Both of these are significant decreases from mid-2011 and both percentages are the lowest recorded since we started surveying charity leaders in late 2009. This pattern suggests that many charity leaders see the financial situation for their organization as worsening over the near-term.

⁴ i.e., in 3 to 4 months and in 12 months.

Figure 6: The percentage of leaders predicting increases in paid staff has dropped.

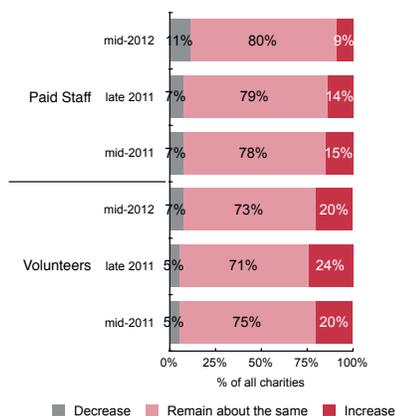


Figure 7: The percentage of leaders predicting they will be less able to carry out their mission in one year's time has increased, particularly among charities that are under stress.

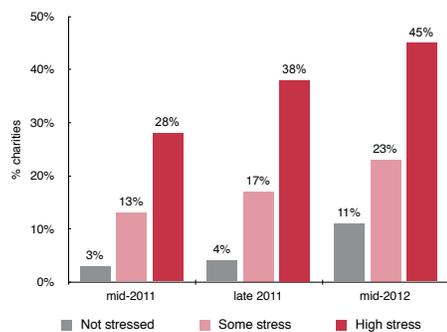
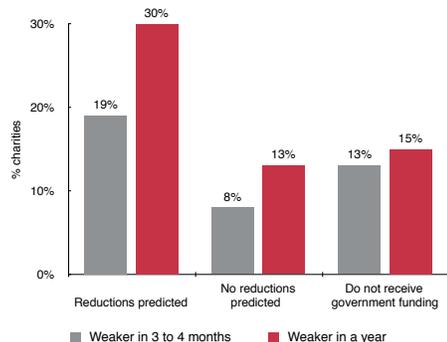


Figure 8: Charities that predict reductions in government funding are also more likely to predict that they will be less able to carry out their missions.



Not surprisingly, leaders' predictions regarding paid human resources mirror to a large degree their sense of pessimism about their financial futures. While most leaders predict that their paid staff numbers will remain about the same over the next three or four months, the percentage of leaders predicting increases has dropped from late 2011, while the percentage predicting decreases in paid staff has risen (see Figure 6). Leaders' predictions for changes in volunteer numbers remain consistent with previous waves of the survey.

Summary and Discussion

Clearly, current *Sector Monitor* findings indicate that charity leaders are less confident about the future than they were in the recent past. However, it is difficult to say exactly what is driving this decrease in confidence. Although demand pressure seems to be climbing, difficulties covering expenses are slightly more prevalent and revenues appear to be stagnating, these factors alone seem too small to be primary drivers of this drop in confidence. Organizational stress does seem to be related, as shown by the fact that: a) organizations that are under high stress are more likely to be pessimistic about the future, and b) the greatest growth in the percentage of leaders predicting future weakness is among organizations under high stress (for example, see Figure 7). However, again, the size of the increase in pessimism cannot be explained by organizational stress—in fact, most of the increase is actually driven by organizations that are not under high stress.

What, then, might explain the reduction in confidence? Obviously, overall economic conditions likely play a significant role. Although Canada has generally fared better than most other economies during the recovery, we continue—three years on—to be faced with news of how slow and potentially reversible our economic gains have been. Similarly, there is continuing instability or weakness in other important economies that affect our own (e.g., the recent serial crises in the Eurozone and the fairly stagnant employment situation in the United States). In addition to general economic factors, however, we believe that anticipation of significant cuts to government funding is also likely playing a significant role. Fully 85% of charity leaders we surveyed predict that government funding to the sector will be reduced at some point in the next two years and 58% who receive government funding expect they will experience reductions. Leaders predicting reductions for their organization are strikingly more pessimistic (see Figure 8) and sufficiently numerous that they account for approximately half of those predicting their organizations will be weaker in the near- and medium-terms.

Imagine Canada's programs that support the sector include:

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Conclusion

The results of this *Sector Monitor* show a decline in confidence among charity leaders. More of them are predicting that their organizations will be less able to carry out their missions in the near- and medium-term. Similarly, more of them are predicting stagnation or decline in the financial and human resources they depend on. While there are indications that pressures on organizations are increasing, these pressures do not seem sufficient by themselves to have caused the decline in confidence we are seeing here. Rather, we believe that this increased pessimism is also due to global economic factors and the broadly held expectation that government funding for the charitable sector will be cut significantly over the next year or two. This edition of the *Sector Monitor* contained many questions about the topic of government funding and we will explore the issue in more detail in an upcoming report entitled *Trends in Government Funding*.