

# Supporting Financial Vibrancy in the Quest for Sustainability in the Not-For-Profit Sector

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The quest for sustainability in voluntary sector organizations is a quest for sense in a rapidly changing funding world and a turbulent economic environment. Interest in the concept of sustainability by both funders and leaders of nonprofit organizations is mounting as the sector moves more deeply into what may be termed a funding crisis (Scott, 2003; Eakin, 2004; Centre for Philanthropy, 2003; Statistics Canada, 2004) in which the sector struggles to reposition itself in relation to its funders (Hall & Banting, 1999; Statistics Canada; 2005). As governments downsize and reduce or move away from contractual partnerships with the sector for the provision of services (Rice & Prince, 2000), funding has become less stable, more difficult to obtain, and more short-term (Scott, 2003). Organizations that once had or might expect to eventually obtain core funding now rely on diverse sources of funds raised from their communities and from project-funded dollars (Scott, 2003). Severe strains are beginning to show in the capacities of both Canadian and American nonprofits (Saunders, 2004; Salamon & O'Sullivan, 2004; Centre for Philanthropy, 2003; Scott, 2003; Salamon, 2003; Hall et al, 2005).

The term sustainability was coined originally in the environmental sector by the World Commission on Environment and Development. The concept was introduced as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED, 1987; De Vita & Flemming; 2001, p. 42). The term has slipped into the nonprofit lexicon, without much refinement, and is now linked to everything from sustainable livelihoods to organizational resourcing practices and funding criteria. Paul Connolly, working from a capacity-building perspective in the sector, closely echoes the WCED definition, suggesting that funders think of sustainability as the principle “that people must meet the needs of the present without compromising their ability to meet future needs” (2002, p. 7).

This article explores the notion of “financial vibrancy” as a way of understanding organizational sustainability. It is based on an analysis of 60 Canadian case studies developed in a project commissioned by the Financial Capacity Task Group of the Voluntary Sector Initiative’s Capacity Joint Table. The case study organizations were chosen to illustrate financial/resourcing best prac-

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tices. They are, in research terms, the “outliers” in the funding crisis – vibrant and growing organizations, many back from the brink of “near death” experiences, but all thriving and optimistic about the future. A study of these organizations offers a challenge to how we have been thinking about capacity building for sustainability and begins to set the sign posts for reflection on funder practices that would support a new way forward.

In the wake of change come not only struggle and loss, but also the emergence of new ways of doing things. In the U.S., Lester Salamon notes that the sector shows a surprising resilience and predicts that many organizations are “well along in a fundamental process of re-engineering” (Salamon, 2003, p. 6). Carl Sussman suggests that the ferment has come to be viewed by some organizations as “a long-term asset making them stronger, more resilient and higher performing” (Sussman, 2003). While it is still too early to tell if there is a pattern to what kinds of organizations are thriving, there is clearly something new emerging that offers both funders and organizations some keys to supporting the sector through transition.

### **Accountability Politics and the Search for New Frameworks**

In practice terms, how funders invest dwindling funds in the most effective ways and places is deeply affected by what Salamon calls the “legitimacy challenge” (Salamon, 2003, p. 19), as trust and accountability have become issues for the sector and funders alike.

To ensure their own accountability to the public purse, funders currently ask for a range of time- and resource-consuming reporting processes (Scott, 2003; Centre for Philanthropy, 2003). Nonprofit organizations have moved to improve governance practices while juggling multiple reporting commitments for a patchwork of project funding. Yet in the rush to account, it is perhaps time to look up from the framework of accountability for dollars spent on invoices or outcomes to see if we are asking the right set of questions. The public purse may be at least equally well served by asking whether what is funded, and how it is funded, contributes to fostering a viable third sector.

In Canada we have virtually unknowingly created the second largest voluntary sector in the world. Providing everything from children’s sporting activities to life and death care, the sector employs 12% of the country’s economically active population and, when the value of volunteer labour is included, contributes 8.5% of the nation’s gross domestic product. Nearly three quarters (74%) of these workers are directly engaged in delivering the services that characterize the Canadian welfare state (Statistics Canada, 2004). Other countries, particularly those in the former communist bloc, are working to establish civil society to provide services that some suggest act as a buffer between civil unrest and young democratic governments (Putnam, 1993).

The key question is how, in the midst of fiscal reform, to maintain this jewel at the heart of Canadian social democracy. In the debate between those who call for renewed government funding of core costs and those who would direct nonprofit organizations to “work more like a business,” search for efficiencies, and generally get their ducks in a row, this article takes up a third, pragmatic position: that several things may be true at once. While lobbies to increase core funding may yet signal a return to a kinder, gentler version of government partnership with the sector, global trends to downsizing and aversion to tax increases suggest that we are unlikely to see a return to early 1990s levels of core funding. We are even less likely to see core funding that meets the increased demands of a sector that is growing (Salamon et al, 1999; Hall & Banting, 2000) and that is trying to catch up to the wages and benefits offered in other sectors (Saunders, 2004). If there is something to be discovered about how organizations are adapting to the changing economic environment, now is the time to discover it.

### **Research Method**

In an earlier paper, I described how four key organizational elements contributed to sustainability in 10 Ontario case studies (Struthers, 2003). My motivation for taking leave from my usual role as a funder to become a researcher on the Ontario portion of the VSI project was the need to articulate project development advice about sustainability as a key funding criterion for the Ontario Trillium Foundation, where I work with provincial human service organizations that are seeking funds. As I listened to and wrote about the stories of Ontario nonprofit organizations and interviewed ‘sector watchers’ who influenced the selection of case-study organizations, I got the clear impression that some organizations are not only weathering the funding crisis, but are thriving in the climate of change. While they may struggle to garner adequate funding, these organizations are growing (sometimes exponentially), are becoming more confident, and are able to view their world and their mission with optimism and a sense of growing opportunity. Although there is much work to be done in assessing what kinds of organizations may be leading the shift, it is fair to say that the organizations represented in the national data set are very diverse and that they view their work through a substantially different lens than do many organizations, a lens that makes them at once more optimistic and more fundable.

The four key elements that these organizations share – a high degree of congruence between their governance structure and their culture, sources of revenue, and mission; a resourcing model that delineates a sustainable operation; a very specific, clearly defined niche for their work; and governance practices that include oversight on the match between mission and sources of revenue – are not traditional capacities, nor do they create sustainability. Rather, I came to understand them as the beginnings of a set of capacities that contribute to a way of working that, in turn, contributes to the ability of these organizations to sustain themselves.

### **Clear Focus on Mission in the Move to Project-Based Funding**

Women's Network PEI lost the core funding that it had been receiving from Status of Women Canada in recent years. In response, it has made a deliberate move to capitalize on project funding in order to provide programs on social and legal justice, employment, and access to health services for women. It says this about the shift from a core-funded to a project-funded organization: "We are now almost exclusively project funded. We are quite clear, with the board's direction, to know what ends we want to meet. We pursue project funding only when it meets our ends. We have been able to develop projects that have brought us to a wider audience than we had previously worked with. We now work with more partner organizations on regional, Atlantic, and national initiatives. We have a stronger focus on multi-phased projects that recognizes that it takes long periods of time to effect social change. With these abilities, we have moved from \$30,000 of core funding to over \$300,000 per year on project funding... We see a world of opportunities waiting for us. Funders know that we always have the next proposal waiting for them, just in case they have funds available for work we want to do."

I define "financial vibrancy" as the capacity of an organization to make the transition from one sustainable moment to the next. It is a set of capacities that create a "lens" or a way of thinking about their work that enables these organizations to maneuver through instability in an opportunistic and optimistic way. In a rapidly changing economic environment, the goal may not be to achieve stability, but to build the fluidity to change organizational shape, build alliances, and take up the opportunities of the moment.

To further explore this notion, I undertook a text analysis of the 60 case studies that make up the national data set and asked the question: When these organizations speak of their financial/resourcing practices, what organizational capacities do they describe that contribute to their ability to be financially robust? Describing these capacities will help funders to (a) invest in meaningful capacity building that supports sustainability and (b) identify good funder practices that foster financial vibrancy.

The 60 VSI case studies<sup>1</sup> were developed in a template form by six researchers who were charged with documenting the financial/resourcing best practices of

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1 The case studies are mounted as a searchable database at <[http://www.vsi-isbccca/eng/funding/best\\_practices.cfm](http://www.vsi-isbccca/eng/funding/best_practices.cfm)>.

diverse organizations in six regions of Canada. “Financial/resourcing best practices” were defined in the request for proposals (RFP) as ways of financing that “enhance the ability of the organization to meet its mandate efficiently and effectively.” The organizations ranged from direct service organizations involved in the relief of poverty to recreation clubs in small towns, a multi-service Aboriginal service networks, and an orchestra.

Case study or story-telling research is an ideal method for examining sustainability. It yields practical, real-life examples of emerging practices and helps to provide the kind of contextual depth that highlights the interplay of resourcing and organizational elements, such as culture and governance (Community Foundations, 2002). In a time of shift and change when there is little theory to build on, stories of practice hold the wisdom. The analysis in this article is based on 54 of the 60 case studies (the other six case studies documented funder organizations). Case study text was selected first for any capacities described and was then clustered into nine thematic groups that ultimately resulted in the six key capacity areas described in this article.

### **Financial Vibrancy, Resilience and Capacity Building: A Quarter Turn on an Existing Framework**

Capacity-building theory is the logical container to hold new thinking on sustainability. However, as with the term sustainability, one must first venture on a quest for meaning. Penelope McPhee and John Bare suggest that ‘capacity building’ is too popular and expansive a term that has, so far, created rhetoric that is well ahead of the actual work (De Vita & Flemming, 2001). Paul Connolly suggests that the word capacity is “an abstract term that describes a wide range of capabilities, knowledge, and resources that nonprofits need in order to be effective” (Connolly & Lukas, 2002, p. 15). McPhee and Bare echo the theme of organizational effectiveness and define capacity building loosely as “the ability of nonprofit organizations to fulfill their missions in an effective manner” (p. 1).

Monica Heuer, writing for the Fannie Mae Foundation in the U.S., summarized the organizational effectiveness literature of the 1980s and 1990s and identified five characteristics associated with organizational success: a vital mission; a well-organized board composed of able, involved members; capable, strong leadership; motivated volunteers and staff; and solid finances, including reliable and diverse revenue streams. Connolly’s set of components of effective organizations are similar: mission, vision, strategy; strategic relationships, program delivery, and impact; internal operations and management; resource development; and governance and leadership (Connolly & Lukas, 2002, p. 16). Inherent in the organizational effectiveness paradigm is thinking about capacity that is grounded in traditional values of social and organizational stability. But grounding organizational capacity building in program effectiveness, with stability as a key goal, at a time when the sector is repositioning itself in the wake of a rapidly changing political and economic environment, sets up a framework that, at best, limits new thinking and, at worst, supports the ineffective investment of public funds.

To move from rhetoric to practice we need to ask much more specific questions about what capacities are needed in a time of fiscal repositioning in the corporate, government, and third sectors. If the goal of capacity building is envisioned not as stability, but as the ability to change while staying effective and true to mission, we are better to ask “the capacity to do what?” (De Vita et al, 2001), rather than to apply a generic set of ideal organizational capacities. As the economic landscape shifts, organizations may actually require the capacity to develop a kind of fluidity and porousness of structure along with responsiveness, the ability to learn, and quality product development (Heuher, 1999). This version of capacity building is predicated on the notion that change, rather than stability, is the norm.

In its 2003 conference proceedings, The Alliance for Nonprofit Management asks a subset of questions about capacity building that encourage a narrower and more specific focus: “Why do you do what you do? How can you ensure that your work delivers positive results for clients, their communities and for the larger society? How will you advocate on behalf of your clients and their constituents? How will you create change?” (Alliance for Nonprofit Management, 2003, p. 28). “Capacity building,” it suggests, “is about inquisitive and inventive thinking. It is about bold change.” Rather than stability, the idea of organizational resilience (Salamon, 2003) and adaptive capacity (Sussman, 2003 and 2004) are gaining currency as more useful frames. John Vogelsang, editor of the *Journal for Nonprofit Management*, suggests that organizational resilience is “the ability to bounce forward, the capacity to make good decisions in the midst of chaos and change,” suggesting that for some nonprofits, it may be time to rethink the entire intent and purpose of their organization (Alliance for Nonprofit Management, 2003, p. 13).

This alternative frame on capacity building encourages reflection, experimentation, and vision. “Financial vibrancy,” and the capacities that contribute to it, can be understood then as contributing to resilience and adaptability rather than to stability, and as the subset of capacities that most directly influence the financial and resourcing sustainability of organizations.

The VSI case studies included 168 references to organizational capacities. These are grouped in the following six themes, in order from most- to least-often mentioned:

1. The capacity to build relationships and link with others across organizations, which results in a fluidity in how the work is thought about and generates options for pursuing both work and resources.
2. The capacity for financial literacy – a strong and creative understanding of financial management and accountability, which leads to the ability to envision new revenue streams, manage cash flow, and work through the tensions between revenue generating options and mission.

3. The capacity to reflect and plan in a meaningful way, which results in the organization identifying a specific and well-considered niche for its work and remaining focused on a mission that is relevant to its community.
4. The capacity to communicate and to tell the organization’s story to the community and to funders, and to communicate its mission in a manner that engages support.
5. The capacity to envision and implement a sustainability model in which there is a strong congruence between mission, governance, culture, and sources of revenue.
6. The capacity to nurture the participation not just of volunteers, board, staff, but also of community, constituents, and other stakeholders.



What makes the case-study organizations successful is not the achievement of one or more capacities. Rather, the central idea that emerges from their stories is of a set of capacities functioning with a particular synergy and interrelatedness to create a new lens, a new way of thinking about how to sustain organizations in the current climate. To explore “financial vibrancy” as one component of resilient organizations and to see more clearly how, given the constraints of the climate, a funder might best support resilient organizations in practice, I focus now on how organizations describe these six capacities.

## **The Capacity to Build Relationships and Link with Others**

Many of the case-study organizations describe a highly developed capacity to link with others. They also describe how organizations participate in a wide variety of connective practices with other organizations that go well beyond partnerships and collaborative organizing. Of the 168 references to organizational capacities, by far the largest number (40%) related to this capacity. The importance of this relationship-building and linking capacity is underscored by a recent American study in which 68% of the organizations studied cited a more active pursuit of partnerships and collaborations as a response to fiscal stress (Salaman, 2003).

The case-study organizations that demonstrate this capacity are not responding to funder dictates for partnerships, a common critique of the requirement of new regime funders (Scott, 2003). Rather they appear to be creating an organizational architecture and culture that enables a much wider variety of approaches to their mission by building and maintaining relationships of trust over time. Collaboration is not only what they are doing, but has become a way of thinking about their organization and an approach to doing their work.

These descriptions suggest a kind of porousness of organizational structure and a fluidity in roles that can be shaped to accommodate the participation of others without losing or threatening organizational identity or focus on mission. The kinds of linkages described include developing “an organization of organizations” to avoid competition at funder tables, building networks of organizations that share information and expertise, linking global communities through micro-enterprises, using more traditional partnerships to propose projects to funders collaboratively, developing in-kind exchanges such as service to common clients of an agency in exchange for office space, building strategic alliances with other nonprofits or corporate partners to share capacities or resources that together create a more sophisticated project, developing joint ventures such as buying a building to avoid rental expenses, and planning collaboratively on a regional or provincial basis. For some organizations, developing links or joint projects with other organizational is seen as strategic capacity building for their own organizations. They undertake joint projects to deliberately develop capacity together or to learn from the capacity of others. As is described in the East Coast Trail Association case study, “Getting to know your partner, and they you, enables each to dip into each other’s pool of capacity.”

This relationship-building capacity informs the way organizations approach funders. They have moved away from the traditional request stance, where the task is to establish entitlement to funds based on track record and a rigorous needs assessment, to working in more relational terms. They tend to view their funders as partners with whom they seek to develop a relationship of trust that allows them to educate funders about the organization’s mission and funding requirements and to gain information about emerging

funding opportunities. The work of proposal development becomes an opportunity for longer-term networking, education, and relationship building as well as for shorter-term fund seeking. “We talk to our funders and get to know them and vice versa. We don’t work with an air of entitlement to funds.... We work with lots of funders... it is an opportunity to educate them on the issues of importance to women – not just to use their resources, but [an opportunity] to see how our agenda and their funds could be used together to a common outcome” (Women’s Network PEI case study).

### **The Capacity for Financial Literacy**

The case-study organizations have a strong and creative understanding of financial management and accountability. Beyond the basics of bookkeeping, audits, and reporting, they have developed the capacity to undertake a deliberate resourcing strategy that fits with mission and governance practices. They describe having the ability to hold complex conversations about fee-for-service options, entrepreneurial thinking and opportunities, meeting accountability requirements, capitalizing new programs and organizations, purchasing and developing real estate alone or collaboratively, developing project proposals that contribute to core costs, investment, managing diverse funding streams, leveraged funding, partnered funding, and the need to search for efficiencies so that they can do more with scarce resources.

Many of these organizations have become clearer about the value they create to meet their missions and are therefore able to move boldly into areas of contested thought, such as fee-for-service programs and entrepreneurial ventures. In the Canadian context, charging fees is often understood to undermine universal access to services, but some of these organizations have been able to work their way through ethical tensions by defraying the costs of direct service to traditional clients with revenues generated from fees for service to new, non-traditional groups of clients. A recent study on the capacity-building potential of The Ontario Trillium Foundation’s grant making includes a case study that describes how the Hospice Association of Ontario used a project grant to increase its training and marketing capacity so that it could offer fee-for-service training on care for the dying to the province’s long-term care facilities. The project not only meets the Association’s mission of improving end-of-life care, but it has also created a substantial stream of core revenues that is expected to continue well into the future (Robertson, 2005).

In the same vein, organizations that have an entrepreneurial bent are able to create enterprises that meet the test of a double bottom line, for example, engaging marginalized people in meaningful employment while at the same time generating a revenue stream, or financially supporting conservancy activities while at the same time marketing eco-friendly products. As the Canadian nonprofit sector is growing and revenues from government are expected

to decline, organizations that know how to market their expertise through new fee-for-service programs will actually be supporting universal accessibility to services.

### **The Capacity to Reflect and Plan**

While the ability to develop a strategic plan is a commonly held understanding of capacity building, the case-study organizations go further and develop a capacity for in-depth reflection with multiple stakeholders about what is really worth doing. The result of a well-developed capacity to reflect is the identification of the specific niche in which the organization can be effective in fulfilling its social mission. As suggested in the preliminary study of Ontario nonprofits, these are not generalist organizations. What becomes clearer in the national data set is that this is because these organizations have developed the capacity to reflect on where to focus their efforts to the greatest effect. The Manitoba Aboriginal Education Awards case study describes how an emphasis on collaborative reflection allowed the organization to establish the most effective point of intervention: “We traveled to two northern reserves...met with elders, participated in a sweat and sharing circle, and consulted with urban aboriginal organizations and historians. After we did all that, and not until we did all that, did we decide that the best way to go was to pursue education and jobs.”

In addition to the capacity to do strategic planning, the case-study organizations described their ability to recognize and learn from mistakes. They continuously search for new ways to do things and to make improvements, even when their work is already respected and going well. In describing this capacity, organizations talk about having the ability to involve their geographic communities or communities of interest in discussions that help them to develop an understanding of the issues and approaches that will lead to change.

These organizations are also able to identify who outside of the organization has resources and mission compatibility and, therefore, the potential to partner with them and/or pool resources. They begin to understand the acquisition and spending of public resources as a collaborative community process rather than a competitive organizational process. They know how to monitor their plans, update them frequently, and link them to budget lines and funding applications. They recognize the need for contingency planning in a rapidly changing environment. They know how to develop and hold a vision, which means that their approach may change as the environment offers opportunities or challenges, but that their organizational intention does not. Finally, they invest in consulting support that facilitates effective planning.

Organizations that use strategic planning in an organizational culture that is conducive to reflection and that learn to narrow down approaches or activities are able to become more focused on niche missions and, therefore, to increase

## **Planning with Stakeholders**

Five social service charities in Williams Lake, B.C., formed The Central Interior Community Opportunities Coalition in 2002. Recognizing that cuts to provincial funding were coming, the Coalition was formed to find new ways of delivering services, to manage change, and to negotiate collectively with funders. “The long-range goal of the coalition partners is to review their mission statements and the programs and services each delivers with a view to becoming more specialized. Over time, they may make some fundamental shifts in program delivery to work less competitively and more collaboratively and to use their resources and funds more effectively. They share space and administrative costs and have, using their joint purchasing power, negotiated reduced prices for computers and made joint requests to foundations. By working together, they have found that they have raised the profile of their organizations with a joint communications strategy, created a joint lobby for funds, and have jointly funded research on community needs and community results, so that they can plan more effectively.”

their success in a project-based and results-oriented funding environment. Many of these organizations talk about how they have learned to identify their strengths and to focus on what they do best, suggesting a shift to asset-based analysis rather than the traditional grant-seekers’ needs-based analysis. In the words of a staff member of EcoSuperior Environmental Programs, “We see ourselves as opportunistic; we look for funding opportunities that fit our ability to deliver and fit our mandate” (case study).

### **The Capacity to Communicate**

While communications from the organization to its public constituency is a relatively well-defined area and much in the case studies reflects known good practice, these organizations also speak about two other areas of internal communications capacity: a storytelling ability that provides visibility and a rationale for practice and an ability to build relationships that allow for collaborative strategies with other organizations to reach broader audiences.

In some of these organizations, storytelling plays the role of organizational memory, explaining why certain practices or values have evolved and embedding practice in organizational culture. The Kitchener-Waterloo Catholic Family Counseling Centre maintains a practice of not accepting more than 12% of its funding from any single source, which has resulted in a sustainability model based on funding diversity. The story that holds the origins of this model is that of a Catholic

bishop, whose name is no longer remembered, who spoke at an annual meeting of the organization in the 1960s. As the story goes, the bishop became impassioned about the political climate of the day and exhorted the organization never to rely on government for what the community itself could provide. The organization is ripe with stories that explain “the whys” of its financial success, which include a quadrupled budget and new \$2.5 mortgage-free building in the decade preceding 2002, which was an era of unprecedented cutbacks in Ontario, particularly in the social service sector. Stories are also imbedded in the organization’s planning documents, in plaques on the walls of its building and on its recognition wall, in the way the organization trains new staff, and in the way staff members describe their work and pitch their proposals to funders.

Collaborative communication strategies reflect the ability of these organizations to work beyond their own organizational boundaries and to take up opportunities for joint communication projects on shared issues or services. This capacity, by definition, leads to broader reach, cost sharing, and new opportunities.

### **The Capacity to Envision and Implement a Sustainability Model**

Because these organizations have the capacity to reflect on change in their environment and its relationship to the niche they have identified, they are better able to identify a sustainable resourcing model. Not surprisingly, this sometimes follows unexpected changes in their funding, which some describe as “a near-death experience.” In the midst of crisis, they have turned the question from “What needs must we meet?” to “What is the most important work we must sustain?”

Sustainability in these terms involves developing revenue streams from the systemic creation of value rather than from adjunctive activities (e.g., walk-a-thons, galas, and bake sales) that raise funds to create value. Social value is, in civic investment terms, the return on a funder’s investment in social capital or the fabric of community. The case-study organizations describe looking for resource-raising opportunities that further their mission while generating revenues (e.g., from fee-for-service projects), developing their research capacity, or marketing training based on expertise that they have developed while carrying out their mission.

The work of the Enterprising Non-Profits Program of the VanCity Community Foundation, one of the case-study organizations, reinforces the link between successful revenue opportunities and the core activities of an organization. The program, which supports nonprofits in developing social enterprises, was created following a pilot program with 10 nonprofits spearheaded by the Foundation with the involvement of United Way of the Lower Mainland and VanCity Credit Union. An important lesson from the pilot was the necessity of consistency between the organization’s mission, values, and goals, and its enterprising venture (Simpson, 2002).

As organizations develop a greater level of congruence between their missions and their revenue sources, they are also able to create congruence between their sources of revenue and their organizational culture and governance. How resources are generated is related to who is on their board and the roles board members play in resource generation, which, in turn, is related to how the organization understands its resourcing model.

### **A Financing Model Based on Partnerships**

After a “near death experience” and following an inaugural partnership with Brock University, the Niagara Symphony is developing its sustainability model based on partnership development. In the partnership, Brock University offered rehearsal and office space in return for involvement of the symphony’s professional musicians in its music program. This arrangement created a resource life-line for the then-struggling organization and introduced the idea of a financial model built on exchange with non-traditional partners. It has since developed partnerships with local wineries and other tourist and commercial operations. This partnering model has permeated every aspect of the orchestra’s operations. It searches for board members who are positioned to promote partnerships; it understands partner sponsorship of a concert as a different form of box office revenue; and it thinks of itself now as the “happy orchestra” – an organization that creates broad social artistic value through partnerships in its community.

### **The Capacity to Nurture Participation**

As with the analysis of the capacity to communicate, much of what was in the case studies is similar to what is contained in the well-developed literature on volunteer management and retention. What was different was the capacity of the case-study organizations to reach beyond traditional participants, such as volunteers, families, and clients, to embrace a broader group of community stakeholders who share some common interest in their missions. By including these community stakeholders in their planning, these organizations have a broader sense of their impact and of the potential for unusual partnerships. In a financial sense, working with traditional partners brings with it access to traditional revenue streams. Working with unusual partners can lead to access to new revenue streams.

### **A Clear Mission and a Broad Range of Stakeholder Engagement**

The Newmarket Soccer Club uses one word to describe its niche in the soccer world: participation. President Bill Condy estimates that the \$1.2 million the club raises and spends playing soccer has an actual value of closer to \$10 million when the value of volunteer labour (calculated at the modest rate of \$10 per hours) is included. The club's board of directors deliberately set out to make it possible for everyone in the central Ontario community to play soccer. When it noticed mothers driving kids to soccer practice and waiting on the sidelines, it began a women's soccer league with a family hot dog BBQ following the games. It adopted blue-and-orange uniforms so that there would be 'drive-by' recognition in the community. When the board convenes an annual general meeting, 150 voting members come out. It is not surprising, then, that when it comes time to raise money, the soccer network swings into action. At the time of the interview for the case study, the club had raised money to purchase acreage for an indoor soccer complex, one of its members had donated the road, and its last fundraising event had come in \$8,000 over target.

### **Implications for Funding Practice**

At a time when the nonprofit sector is growing and governments are downsizing, reducing funding commitments, and turning to the sector to pick up services it no longer offers, more than 60% of nonprofit organizations that receive government funding report problems coping with these reductions or with the way funds are flowing. More than 25% indicate that these problems are serious. (Statistics Canada, 2004). Attempts to obtain and manage project funding from multiple sources are further taxing the administrative capacity of these organizations. Funding mechanisms and structures vary widely, as do reporting requirements. Increasing concern for accountability has led some funders, out of touch with the impact of their processes, to make abrupt changes that further destabilize nonprofit organizations (see Folco, 2005, for an analysis of the unintended impacts of implementation of recent changes in HRSDC funding). It is, as an American sector watcher observed recently, reminiscent of a 'perfect storm' scenario and suggests that although Canadians have unknowingly created the second largest nonprofit sector on the globe, we might just as unknowingly be dismantling it.

If funders, particularly those that are interested in capacity building, are to take up the broader view of accountability advanced in this article, that of accountability to the preservation of a viable third sector, then there are two lessons that can be drawn from a study of financially successful or vibrant organiza-

tions. First, as we fund to enhance sustainability, we must be sure that we are funding the right capacities – those that are most likely to support ongoing financial viability in a time of constraint and change and in a particular organizational setting. Second, funders must be reflective about funding practices and vigilant to the possibility that they result in needlessly high transaction costs to organizations (i.e., what organizations spend in staff time and other scarce resources on applying for funds and reporting back to funders) and that accountability mechanisms may actually tie the hands of organizations that are trying to develop the financial literacy they need to adjust to more fluid and unstable granting practices.

### **Funding the Right Capacities**

This research begins the process of identifying the set of capacities that build financial sustainability. It is clear from the results that these are areas of sustained organizational development, which suggests that funding for effective capacity building should be longer-term or should consist of connected short-term grants. The manner of building these capacities effectively will be unique to particular organizations and communities, which suggests that the most effective grants will be those that allow organizations considerable flexibility in design and implementation, as opposed to insisting on a “cookie-cutter” approach. The research also suggests that traditional capacity building for stability in an instable time may be counterproductive and that organizations need to develop the capacity to be resilient and adaptive. It also raises some interesting questions about the capacity to fundraise as the traditional financial solution. The services of a professional fundraiser were referenced in only one of these case studies, yet fundraising has become a fast-growing professional industry as the sector struggles to create the human capacity to generate funds (McMullen, 2002).

New reporting from the National Survey of Nonprofit and Voluntary Organizations suggests that the big charities, those involved in healthcare and education, are getting bigger and more effective at laying claim to financial and voluntary resources than are their small and medium-sized counterparts (Statistics Canada, 2004). Professional fundraisers focus on traditional philanthropic funding sources (individual and corporate donations), which make up only 17% of revenues for small and medium-sized organizations, yet the sector has increasing interest (Village Vibes, 2005) in expanding access to the 21% that accrues from earned revenue (Statistics Canada, 2004). Fundraising associations may well want to reflect on what they offer to small and medium-sized organizations and on the changing climate. It is seductive for the profession and for funders to think of the establishment of a permanent fundraising position as building a capacity for sustainability in these organizations, but this may well be a one-size-fits-all solution drawn from much larger organizations. The profession itself is facing high turn over and is experiencing retention issues (McMullen, 2002), suggesting an inherent tension in the “fit.”

## Reflective Practice

In the context of this article, reflective practice refers to the ability of funders to continuously seek out information about the impact of their funding practices on nonprofit organizations and to integrate this information into their ways of operating. Reflective practice is key to implementing the broader frame of accountability and ensuring that investment supports the goal of a sustainable and vibrant sector. Private and public sector funders rely on their grantees to create impact, but often have no effective forum in which to engage them about funding practices and their impact (Centre for Effective Philanthropy, 2004; Ostrower, 2004). Without such a forum, funders cannot fully see the extent of transaction costs nor how accountability measures (such as claw backs of operating surpluses, no administrative funding for projects, overly stringent line management, and restrictions on financing options) may limit financial capacity. Often neither funder nor organization can see how these costs affect already constrained core budgets or jeopardize service delivery. Nonprofit boards have few financial tools, other than the traditional audit, to help volunteers identify and track core administrative costs and deficits.

Public and private sector funders, like nonprofits, have lived the last decade in a whirl of political change and constraint that has left them with little time for reflective practice or for dialogue with the sector or amongst themselves. Yet dialogue seems imperative now because what works well can only truly be seen from both perspectives. The capacity-building literature focuses almost exclusively on the capacities of nonprofit organizations, but we might well also ask: what capacities do funders require to respond well to these organizations in this time of shift and change? This study suggests that the sophistication of the sector in partnering and linking activities will require that funding organizations should themselves be fluid enough to support innovative arrangements rather than dictating partnerships, or worse, constraining them because of funding mechanisms. That organizations, like those in the case studies, are seeking to build relationships with funders presupposes that funding organizations will have adequate staffing capacity to build and hold relationships, and the flexibility to sustain commitment to capacity-building projects over incremental project applications.

In a sector in which resources are so constrained that time for reflection is at a premium, funders must support learning as well as doing. It is essential that they provide funding that will allow organizations to take the time and hire the expertise to consult, plan, and think in the live and ongoing process that case-study organizations describe. It is also important to support the development of sustainability modeling, along with the broader conceptual thinking about what sustainability means, and the development of financial tools that enable discussion. For project-based funders that are unable to provide core funding, the questions become how to build capacity through projects that help organizations to attain financial vibrancy and support a transition to new ways of

meeting mandates, and how to minimize the impact of grant transaction costs and fairly support a share of core costs related to projects. For core funders, the discussion must include consideration of investment practices that recognize that organizational capacity and relationships built over time are part of the cost of delivering quality service, rather than relying on RFP calls that consider only service delivery. Finally, it is critical to help lower capacity organizations become financially literate so that they can protect the fragile core of their operations and think more entrepreneurially and hopefully about resourcing their work.

## **Conclusion**

Financial vibrancy and the study of financially successful organizations as bellwethers of change make the intersection of the broad rhetoric of capacity building and sustainability more specific. It is hoped that this description of the set of capacities that creates the lens that makes these organizations both more optimistic and more fundable can help funders and organizations alike. It also brings into sharp focus some of the questions about financing the sector in Canada. Clearly there is more than one conversation to be had. The larger conversation about how the traditional deal between federal and provincial governments and the sector is changing in response to government downsizing speaks to the nature of social democracy, the social safety net, and what will be held in the commons – that space between community and government. The conversation about the mandates of government funders influences other questions about funding practice. In this pivotal conversation resides the debate about amount and type of core funding to nonprofit organizations and to whom for the provision of what services. It is fundamentally a political question and is situated in public debate about the roles of various levels of government and the nonprofit sector in providing service in the welfare state.

In the realm of practice, those who work as funders, independent of governments or mandated by them, are faced with questions about how to implement funding programs in ways that build the capacities that are most likely to support organizational survival in a rapidly changing environment. Funding practitioners and the nonprofit sector must undertake this conversation together, for neither alone can name the entire landscape on which the changes that affect them both are occurring.

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