

TRANSFORMATIONAL NONPROFIT GOVERNANCE

Social Innovation and Nonprofit Governance

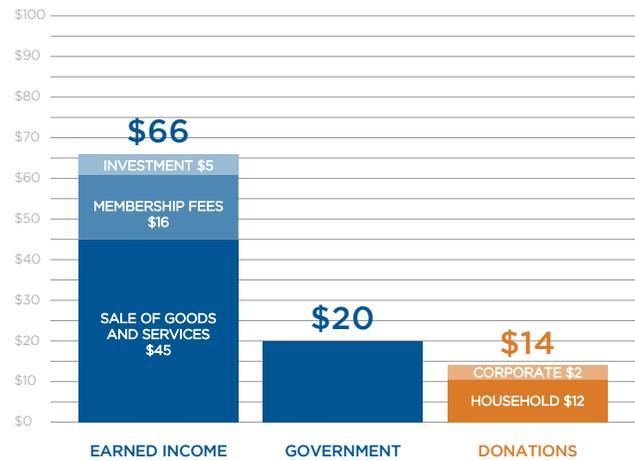
Profitable nonprofits – Oxymoron or future of the sector?

Today, earned income is the fastest growing revenue stream in the nonprofit sector. Over 45% of sector income is generated through the sale of goods and services. When combined with membership fees and investment income, 66% of sector revenue is earned income. The final third of core nonprofit sector revenue is derived from 14% donations and 20% from government funded contracts. If donations constitute only 14% of income, why do we continue to govern in the style of charitable trustees? Is this approach to governance conducive to driving the growth of an innovative, high-performance and impactful social sector?

How Charitable is your Charity?

When compared to the arts, sports and recreation, social service charities are more likely to be dependant on government funding; they are currently less entrepreneurial and in receipt of a lower percentage of donated dollars, than is

NONPROFIT REVENUE BY SOURCE (FOR EVERY \$100)



(Core nonprofit sector, 2007)

typical across the core sector. However as social service charities face reduced government funding, more and more organisations are looking for ways to secure their futures independent of government. The landscape is changing rapidly and social innovation is certainly no longer the exclusive domain of the charitable sector.

An article published in the Nonprofit Quarterly reports that the top four skills needed to succeed in the sector by 2020 are: 1. Data Capacity; 2. The ability to apply design thinking to solve social issues; 3. The people skills to create cross-sector partnerships and 4. Nimbleness and Adaptability. Yet, how many boards have authorized plans to allocate resources to develop these important skills?

Six Questions Board Directors of Canada's Social Service Charities need to be asking

1. To whom is the board accountable?
2. Why does this organisation matter?
3. Whose lives are we focused on improving and in what way?
4. How does the board add value?
5. How does the organisation define and measure success?
6. Are we building the skills we will need to succeed five years from now?

To stay relevant as social innovation leaders, now is the time for Canada's social sector charitable leaders to ask, and answer, some tough questions.

1. How charitable is this charity?
2. Is the volunteer board helping or hindering innovation and impact?
3. Are we any good at this?
Are we getting better?
4. How do we know?
5. Do we have the right structure for what we are trying to achieve?

Too many social service nonprofit organisations operate as bureaucratic, quasi-government agencies, tied to government funding mechanisms that often support such structural inertia. Canada is not alone; researchers in the USA (John Hopkins Survey, 2005) have concluded that antiquated charity laws, and short funding cycles, replete with a mound of bureaucracy, have fostered a culture that is more dependent than dynamic. (See paper on *Culture Shock*)

“If your strategy can be applied to any other organisation then you don't have a very good one”

The social service charity sector is very different today, than when it was originally conceived in 600AD, long before the creation of the welfare state. Despite this, the charitable board governance model has remained largely unchanged for hundreds of years. The predominant, hands-off, risk-averse approach to governance impedes

innovation, is non-participatory, usually disconnected from beneficiaries and most unresponsive to changes in the marketplace. It is a relic from another era.

Today the dominant approach to governing a charity in Canada continues to be the Policy Governance Model, which is based on the separation of the board from the CEO and staff and views the board as trustees, serving on behalf of communities. This made sense when community funded the work. Does it still make sense for organisations that are increasingly self financed?

Times are changing

Between 2003 and 2009, government transfers to the core nonprofit sector fell from 36% to 19.7% of core sector total revenues. Donations remained stable at 14 percent. If 66% percent of revenues from the sector are now earned, and only 14 percent are charitable, why has the dominant governance model failed to evolve from that of the charitable trustee to something more strategic, more vibrant and entrepreneurial?

Why does this matter?

Canada's nonprofit sector represents 8% of the country's GDP and is the second largest nonprofit sector in the world. 1 in 10 Canadians depend on the sector for employment. However, under current law, this vitally important and highly knowledgeable employee group is prevented from sitting on boards.

This likely made sense hundreds of years ago, when community provided all charitable funds, and trusted, respected individuals were appointed to oversee the responsible distribution of funds. But what about today? Today, nonprofit employees



A Changing Landscape

Business is becoming more social while nonprofit organisations are becoming more enterprising. Governments are moving to Pay for Performance contracts and foundations are seeking impact over process performance metrics, such as inputs and outputs. Society is looking to invest in charities that can deliver the most social value at the lowest possible price.

Is the trustee style governance model now helping or hindering social innovation and the vibrant growth of the sector? When government and society are no longer the predominant funders, perhaps it is time for an alternative legal framework to support innovative growth in this important sector.

TRADITIONAL NONPROFIT	ENTERPRISING NONPROFIT
Compliance	Change Makers
Risk Averse	Entrepreneurial
Charitable	Venture Philanthropy
Big Tent	Strategic Focus
Foundation Grants	Impact Investing
Government Contracts	Pay for Performance
Internal Focus	External Focus
Process Driven	Nimble, Agile
Output Metrics	Impact Metrics
Fundraising	Earned Income
Donations	Crowd Funding

(Sandra Hamilton Consulting)

generate 66% of sector revenue and most of the value creation, yet they remain excluded from any role in governance.

Whether the boards of social service charities are primarily accountable to external stakeholders, such as the community and society generally; or to their members; or beneficiaries; or paying customers; or even their funders, is not always as clear as one might like. However, with earned income representing the largest area of revenue growth in the sector, is it time to consider more participatory styles of governance where staff and beneficiaries participate with a stronger voice on charitable nonprofit boards?

Is the current approach to governance acting as a barrier to innovation in the charitable nonprofit social service sector in Canada?

Even without regulatory changes, it is prudent for social service charities to start exploring ways to

change the face and sharpen the focus of nonprofit board governance. By failing to innovate the social sector risks falling behind, losing relevancy and influence in leading society's quest for positive social change.

“The only thing worse than training staff who then leave, is not training staff who stay” ~Zig Zigler~

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Hamilton is a speaker and consultant; the former Business Manager to clients such as John Furlong & Olympian Silken Laumann. Today, her work is focused on advancing social innovation and social procurement in the public sector and working to inspire & support organisations seeking transformative change, revenue generation & increased impact.

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