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Where Charity and Business Meet

For at least a decade voluntary sector organizations have been pushed to adopt more "business" practices. In some sectors this has lead to the opening up of what were traditionally voluntary sector fields to for-profit organizations. In these sectors, not-for-profit organizations bid for service contracts along with for-profit organizations. In open competitions such as home care contracts in Ontario both not-for-profit and for-profit compete under the same rules. In other areas the field has not been opened to competitive bidding but funders have tried to implement "business" practices in their funding agreements, including increased accountability, measurable outcomes and fixed price contracts.

The introduction of business practices into voluntary sector funding was undertaken at a time when government funders were seeking to reduce and contain their spending. As a result, cost containment, cost reduction and efficiency strategies were given priority focus to the neglect of other business practices that might benefit and build the contractor organization. The process has been a "cherry picking" of business and charitable practices and the resulting funding formula has proved challenging for voluntary sector organizations. Many now find themselves with little or no reserves, thereby reducing their capacity to manage cost changes while operating programs year after year that are routinely funded below cost recovery.[1] The following table compares and contrasts a business approach and the hybrid business/charity funding model currently applied to voluntary sector organizations.

The hybrid business/charity model is not working well for many voluntary organizations and their clients. A new voluntary sector funding model is required that will provide for organizational excellence and sustainability over the long term.

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[1] Government Funding Cutbacks and their Effects on Nonprofits, Summary of Abstracts prepared by the Manitoba Intersectoral Secretariat on Voluntary Sector Sustainability , October 2000. pp. 27-29

Table: Comparison of Voluntary and Private Sector Contractual Arrangements

Not-for-Profit - Voluntary Sector Practice	**For-Profit - Business Practice**
Fixed price contract (no profit allowance) -cost overruns are the organization's responsibility -under spending is recovered by the funder Implications -The organization cannot build up reserves to cover program deficits. Every dollar overspent on a program puts an organization in debt. The organization has decreased resiliency, and organizational capacity.	**Fixed price contract** includes profit (ranging from 7-20%) -cost overruns are the organization's responsibility. -under spending is retained by the organization (profit) Implications – For-profits can build up retained earnings out of surplus or profit. They can use these funds to cover program overruns in other areas. Organizational resiliency and capacity is built into funding structure.
Non-direct program costs (all costs except frontline staff salaries) are limited to 10% or similar figure depending on the program, regardless of actual cost. Funders expect the organization to cover the shortfall with a "contribution". Most overhead costs are not considered for funding.	**Non-direct program costs and overhead** are negotiated into the pricing structure of the program with a profit margin. Funders expect and allow the business to cover its costs in the pricing structure.
Contract renewals do not necessarily include a review of the costs of a program. Contracts are often renewed for a pre-determined fixed amount. Actual increases in operating costs and staff compensation are often not considered when determining the renewal budget. Implications - Organizations may have difficulty meeting legislative obligations such as pay equity. Staff are hired on short term contracts to keep compensation low, increasing staff turnover. The organization must spend time searching for donors to support under funded contracts. The organization may have limited ability to absorb additional costs internally.	**Contract renewals** must keep pace with expenses or the business will withdraw from the program. The profit allowance gives the business more capacity to cover funding shortfalls until contracts can be adjusted. Implications – For-profit businesses have more capacity to absorb losses in the short term. Indeed, when competing against the voluntary sector, operating at a loss in the near term is one way of gaining market share.
Commitment to Mission Voluntary sector organizations are committed to their mission and tend to be reluctant to abandon a service notwithstanding inadequate funding. Funders have benefited from this commitment.	**Commitment to Profit** Funders understand and accept that for-profit businesses need to make a reasonable profit or they will stop providing the service. Funders respect this approach.