

WILL YOUR NONPROFIT SURVIVE 2020?

A Global Philanthropic Canada White Paper

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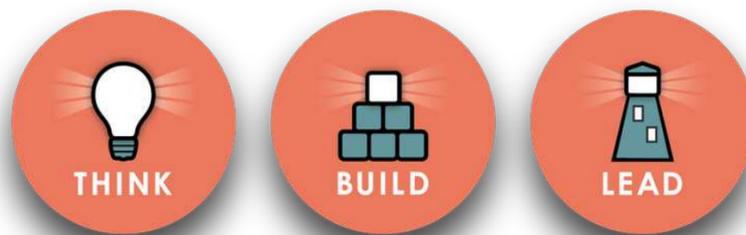
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COVID-19 COULD MEAN EXTINCTION FOR MANY CHARITIES

SeaChange Capital Partners is a nonprofit merchant bank in New York which specializes in assisting charities and nonprofits. Their Managing Partner, John MacIntosh, wrote an Op-Ed for CNN recently. It came as an eye-opener to many in the charity and nonprofit sector:

“COVID-19 could mean extinction for many charities”[1].

MacIntosh gave a stark and objective assessment of the potential impact on nonprofits, and the reality that some may not survive the coming months. While his editorial was U.S.-based, there is much for Canadian nonprofit leaders to consider as we face a new and uncharted path.

“COVID-19 is poised to become an extinction-level event for America's nonprofits. Cultural institutions have been forced to close their doors. Organizations working in and around public schools or in senior centers cannot provide services because their clients are not showing up.

Fundraising events have been canceled. Many essential front-line social services -- e.g., operating homeless shelters --cannot be delivered remotely and pose particular risks of infection, increasing the costs of keeping staff safe.

Unless government, funders and nonprofit leaders take immediate and decisive action, many nonprofits around the nation may just disappear over the next few months leaving those they serve and employ in disastrous circumstances.”

‘Immediate and decisive action’ – great advice, but the question is, “what action and how immediate?” The second answer is easy – act now! If COVID-19 has taught us anything, it’s the need to move quickly and decisively. Governments around the world have seen the impact of delay. Canada’s response to the pandemic started with west coast regional action early in March followed by federal engagement. Will that be sufficient to flatten the curve? Time will tell.

[1] <https://www.cnn.com/2020/03/20/opinions/coronavirus-extinction-level-event-charities/index.html>

Will your small charity or nonprofit survive the COVID-19 crisis? Unlike MacIntosh, I think most charities will respond positively and pull together. The answer really depends on your response and how quickly you move. The challenge for nonprofits and charities is not when to act, but what decisive actions to take. While the COVID-19 pandemic has no equivalent in living memory, lessons from past pandemics can shed light on how civilization responded and recovered.

BACKGROUND: Previous pandemics and recoveries

In the 14th century, the black death pandemic decimated the European continent. In the aftermath, labourers, farm hands and general trades workers were in short supply. The result was an end of Europe's system of serfdom and an increased appreciation for the value of labourers; increased wages and more universal access to protein and food supplies. The plague sowed the seeds for social and technological innovation.

Disease and plague in the 16th century were the advance forces which wiped out 15 million Central and South Americans, making the Spanish conquest of the Americas an easier task. While Cortes and Pizarro were legendary military leaders, their accomplishments were significantly aided by the effects of microbes. In effect, they inherited the Americas from a civilization which had been unable to respond to first an unseen threat, and then a military force which arrived on its doorstep.

In the 20th century, the pandemic which accompanied the First World War had a devastating impact on North America. The recovery was slow but steady. The 'roaring 20s' represented a rebound from the tragedy of 1918-19, and the accompanying surge in productivity and wealth changed North American culture forever.

There is no question that we will emerge from this COVID-19 pandemic. Canadians will emerge, battered and bruised, with the loss of value in retirement funds, the real estate sector and the massive impact on our resources sector taking a few years to resolve. History tells us the economy and the market will recover.

The question for charities and nonprofits is how will it affect you in the immediate and short term, and what do you need to do to prevent the prophecy laid out in MacIntosh's essay?

CONTEXT: Charities in the Canadian economy

First, let's look at the role charities and nonprofits play in the Canadian economy. The 2018 *Giving Report* by Canada Helps[2] gives us a succinct summary of the importance of the charitable sector to the Canadian economy:

“With more than 1.4 million full-time employees, the charitable sector now accounts for one out of every ten full-time jobs in Canada, making it the nation's largest employer.

In 2016, Canadian charities also reported \$262 billion in revenue, with the charitable sector contributing an estimated 8% of our national GDP.”

Charities and nonprofits, especially those with annual revenue below \$2 million, don't often see themselves as part of this massive economic sector. The reality is, you are integral. And your organization differs from the private sector because you focus on social needs and doing good community work well.

Nonprofits also differ from the for-profit sector in other ways. Most charities and nonprofits have smaller staffs, more volunteers and little, if any, financial reserve. Large nonprofits like community foundations, universities and hospital foundations have assets available to help weather this storm. Small, purpose-driven charities with few staff and a cadre of dedicated volunteers don't have those reserves to draw on. Smaller charities are more vulnerable and could see an immediate and potentially devastating impact as the economy shifts. More from *The Giving Report*:

“These under-the-radar organizations do everything from visiting isolated seniors at home to improving public space through art and environmental conservation. They also provide the glue that brings us together and ensures we're resilient to chronic stresses like hunger and homelessness and the shocks that come from violence and natural disasters...”[3]

The inability to deliver services, through a reduction in the number of volunteers and otherwise, and a decrease in the ability to hold events, raise awareness and generate funding, can become the perfect storm which takes out small and medium-sized nonprofits.

[2] www.canadahelps.org/media/The-Giving-Report-2018.pdf - Charity employment figures are drawn from an analysis of T3010 Registered Charity Information Return data while total employment figures are drawn from Statistics Canada Labour Force Survey data (Statistics Canada, Table 14-10-0090-01)

[3] Sharon Avery, President and CEO, Toronto Foundation, *The Giving Report* 2018

Every one of Canada's 85,000 registered charities[4] fit along the continuum from very small to very large in size. The question for smaller charities is this: will your charity emerge like the Europeans or roaring 20s Americans, innovating and changing cultural norms, or will it suffer the fate of the Incas, severely damaged and succumbing, or becoming absorbed into another entity?

I believe smaller charities have the potential to avoid the fate of the Incas, to ride out this stormy period and emerge ready to tackle the new reality, starting in the third quarter of 2020.

REVENUE: Canadian charitable giving and the economy

The Fraser Institute reported a recent decline in the amount of funds donated to Canadian charities as the result of fewer donors and the reduction in the size of individual donations.

"Canadians are also donating a smaller share of their income. Collectively, Canadians contributed 0.53% of their household income to registered charities in 2016—the lowest percentage since 2006. Donations as share of income declined by 32%. With smaller donations by fewer tax-filers, the result has been a decline in the total dollar value for charitable giving in Canada."[5]

While statistics show individual giving patterns of Canadians are changing, another issue must be taken into account when looking toward the future.

The price of oil has plummeted recently as Saudi Arabia and Russia flood the market. At less than \$10 US a barrel, oil is worth less than the cost of the barrel itself. Four provinces have significant income derived from petroleum: Alberta, Saskatchewan, British Columbia and Newfoundland. With the oil and gas industry comprising 10% of Canadian Gross Domestic Product (GDP), events which negatively impact the petroleum industry also impact the Canadian economy.

It's worrisome that both Saudi and Russian oil interests have little to lose and much to gain in the next ten years as the world transitions away from petroleum-based energy to more renewable sources. Some suggest they are using this time to dump their resources into the market to get what they can while oil still has value. Canada's inability to get its oil and gas from the Prairies to tidewater or move it east to supplant the foreign oil being purchased in Quebec and Atlantic Canada does not bode well for the energy-producing provinces or the Canadian economy in the coming years.

[4] Canada Revenue Agency, Imagine Canada Report <http://sectorsource.ca/research-and-impact/sector-impact>

[5] Fraser Institute, Charitable donations in Canada continue to decline - Winnipeg Sun, 22/12/2018

How does this impact charities and nonprofits? The analysis of donations by Canadians done by Statistics Canada in 2017 suggests Canada's energy-producing provinces contribute a significant portion of the dollars which flow to charities. Individually, Albertans have been the most generous at a median gift of \$480 per donor, 60% higher than the average Canadian, and three times higher than people in Quebec.[6]

Annual Charitable Giving by Canadians

	2017 Donors	2016-2017 Donors	2017: All tax filers	2017 Donations	2016 – 2017 Donations	2017 Median donations
	number	% change	%	thousands of dollars	% change	dollars
CANADA	5,348,220	-0.9	20.0	9,576,975	7.7	300
Newfoundland & Labrador	73,920	-4.0	17.9	80,970	-1.0	370
Prince Edward Island	24,230	-1.6	21.3	33,685	5.2	440
Nova Scotia	133,130	-2.2	18.5	198,510	9.1	360
New Brunswick	106,070	-3.6	17.9	150,435	-1.0	340
Quebec	1,219,000	1.0	19.0	900,630	1.7	130
Ontario	2,122,600	-0.6	20.9	4,099,990	5.5	390
Manitoba	219,540	-1.1	23.2	462,295	8.2	450
Saskatchewan	166,980	-3.5	20.6	309,275	-0.5	440
Alberta	585,490	-4.4	19.8	1,566,425	9.1	480
British Columbia	687,620	-0.2	19.0	1,758,465	18.9	460

The Association of Fundraising Professionals (AFP) suggests charitable donations track the economy and specifically mirror annual GDP. With Canadian oil and gas landlocked by protests and four provinces suffering significant revenue decline, unemployment and economic disruption, and the impact of a pandemic-imposed recession apparently on the doorstep, Canadian charities need to examine very carefully how they approach the coming months.

The Giving Report made it clear that big charities have the advantage in the market. They are able to sustain their awareness and market share during periods of flux. As such, larger organizations garner a disproportionately larger share of donated dollars.[7] Smaller charities and nonprofits compete in a crowded field of similarly sized organizations for part of a very small slice of the donor pie. Historically, the charity sector has worked to increase the size of the pie. Unfortunately, as we have seen from Statistics Canada, the pie is not getting bigger.

The combination of changing donor behaviour, a crippled energy sector and a pandemic-induced recession suggests that small charities have a significant amount of work to do in the coming weeks.

[6] Statistics Canada, statcan.gc.ca/n1/daily-quotidien/190208/t001c-eng.htm

[7] Canada Helps, The 2018 Giving Report

OPTIONS: Going forward

A wise person once counselled me not to identify a problem without also proposing at least part of the solution.

“A problem well stated – is a problem half-solved.”
- Charles F. Kettering[8]

Fortunately, there are mechanisms built into small charities which can give them a tactical advantage.

Size

Smaller charities tend to be more adaptable to change, eager to learn and ready to innovate. Similar to the way Europeans who survived the 14th century black plague (*Yersinia pestis* borne by fleas and delivered by rodents[9]) changed their social structure and wages for tradespeople, smaller charities have an opportunity to change the way they address their mission, their supporters and fund development. Making structural changes in the way fundraising is positioned in an organization; the methods used; and the priority that a culture of philanthropy has within the institution is not only advisable, it is now essential.

A culture of philanthropy must be system wide, universally adopted, and seen as a priority. Board and senior leadership must move quickly to incorporate fund development into the DNA of the organization and imbed donor-centric fundraising as a model for all staff and volunteers. More about this in a minute.

Adaptability

A byproduct of a reduced footprint, smaller charities can adapt to change far more quickly than larger institutions. Unencumbered by a large staff, significant property assets, or an institutional decision-making process which has evolved over time into a matrix of consultation, advisory panels, feedback loops and administration, smaller charities can, with the political will to do so, move quickly to adapt new systems and protocols.

It took almost 100 years for trans-Atlantic shipping to convert from large four-masted square rigger sailing cargo ships to longer, faster and safer steam-powered iron ships, despite the ease of handling, profitability and greater likelihood of surviving a sea crossing.[10]

[8] Charles F Kettering, American Engineer, Inventor and Philanthropist, 1927 Kettering Foundation

[9] [Britannica.com/event/Black-Death](https://www.britannica.com/event/Black-Death)

[10] *The Way of A Ship*, Derek Lundy, Penguin Random House Books

This was due entirely to the thousands of years that sails had dominated the seas. Sailors, captains and ship owners were reluctant to adopt new technology until there was indisputable evidence. Once the iron cargo ships became more reliable (i.e. stopped exploding) and proved their worth by delivering more coal than they burned, steam powered iron ships dominated. In contrast, it took NASA less than a decade to move from small low-orbit rockets to landing a human on the Moon.

Much can be accomplished if an organization is willing to adapt to a new reality, innovate and create its own success.

“We have the tools and the skills; all we need is the political will to change.”

– Gary Wouters[11]

An organization’s ability to adapt will determine its likelihood of survival. Darwin’s evolutionary model applies as much to charities and nonprofits as it does the natural world. Adaptation and the ability to adjust as the environment around you shifts is probably more important than an organization’s history of service and past success in the market. You cannot navigate the future while looking in the rear-view mirror.

Those organizations and institutions which can change, adjust and if necessary, re-invent themselves will be able to capitalize on the new reality. One need only look at the for-profit world for examples of well-known brands that did not adapt: Pontiac, PalmPilot, Atari and Blockbuster.[12]

Organizations which sense the shifting tides and react quickly to adopt new methods and approaches can survive tumultuous times and emerge better and stronger. Volkswagen, Haagen-Daz, Nokia, Samsung and a host of others have reconfigured themselves and built stronger brand followings.

“In Finland, Nokia was originally a pulp mill, then a manufacturer of cables and rubber boots, and eventually a telecommunications giant.”[13]

Charities must decide if they want to emerge from the COVID-19 pandemic by following the Haagen-Daz, Nokia and Samsung business models.[14]

[11] Gary Wouters, Former Deputy Minister of Finance, Province of British Columbia

[12] Brand Failures: The Truth About the 100 Biggest Branding Mistakes of All Time, Kogan Publishing

[13] The Nokia Story, nokia.com/about-us/what-we-do/our-history

[14] Haagen-Daz started as a single cart in Brooklyn, NY selling lemon ice pops. It is now the world’s largest ice cream- maker with outlets in 112 countries. Samsung was originally a grocery store specializing in noodles and dry goods. It is now one of the top three electronics brands in the world.

Culture of Philanthropy

By their sheer size, large institutions tend to be more structured and rigid in their practice. A history of government funding and tenure at universities and hospitals can lead to complacency when it comes to fund development. Smaller organizations are more survival based: they flourish in good times and hold fast in bad times.

“Our organization runs off the smell of an oily rag.”

- David Hoey[15]

The money that funds service delivery, salaries, expenses and other overhead in most small charities comes from a blend of earned revenue, government funding, grants, corporate support, and philanthropy. Cuts to service delivery, salaries, programs, and staffing result from a chronic lack of funding, and organizations which do not address their top line revenue soon have no bottom line to help get them out of trouble.

“Money drives mission!”

- Guy Mallabone[16]

Soon after funding dries up and reserves are depleted, staffing cuts start and service delivery stops. A charity’s ability to deliver on its mission is directly tied to its ability to sustain itself financially. Once a charity develops a culture of philanthropy in its volunteers, staff and supporters, and embeds fund development in the very core of its organizational structure, a healthy organization starts to emerge.

Creating and adopting a philanthropic culture in a charity is one of the most important moves an organization can make to increase its chances of survival.

Relationships, Prospects and Data

Charities likely have a majority of what they need right in front of them – or at least, they should. Membership lists and rosters of volunteers, donors, supporters and community groups which have contributed time, talent and resources to the organization represent institutional gold in the vault of every charity and nonprofit. Mining that resource is the challenge.

Small charities often lack the computing power, software and information technology staff of their larger counterparts. They may not have the thousands of alumni, past patients or data points to mine. But smaller numbers aren’t necessarily a handicap. Sometimes too much data can cripple the process.

[15] David Hoey, CEO, WorldSkills International, Belgium worldskills/international.org

[16] E.H. Guy Mallabone, President and CEO, Global Philanthropic Canada, globalphilanthropic.ca

“Paralysis by analysis is a phrase commonly used to describe the act of over thinking a situation or over analyzing the various aspects of an issue, leading to the inability to come up with an action or reach a resolution.”[17]

The advantage smaller organizations have is their innate creativity and drive to survive. If you own a copy of Excel and have access to your membership and donor lists, you have 75% of what you need to start mining data and creating an efficient prospect pipeline. For a short but detailed Tip Sheet on how to develop an efficient and effective prospect pipeline from scratch, visit Global Philanthropic Canada’s online consulting platform, Virtually GLOBAL™, an online, person-to-person, cost effective coaching and counselling service. See more at <https://www.globalphilanthropic.ca/virtually-global/>

Fight or Flight

Crisis management and the recovery from a systemic change in the way business and social environments operate can be frightening. Some will stand their ground and carry on business as usual, fighting the changing tide. Others will run from the problem and seek shelter, hoping life will return to normal.

The reality is this: what was ‘normal’ are now ‘the good old days’.

Change isn’t going to happen – it has already happened. As I write this, the world is a very different place. People who went to school every day now learn online at home. Likely many of them will continue to do so once the new school year arrives. This will have a huge impact on schools, school boards, colleges, universities and the infrastructure which has been built up over generations.

Business and governments which have developed intricate hierarchies of staff, management and executive will restructure after months of running on a lean and fat-free diet. Increased vacancy rates in office towers, shuttered restaurants where workers ate, food courts with fewer outlets and city-centre shopping malls will all have smaller populations surrounding them. Transit systems needs will be drastically reduced.

Society has changed and there’s lots more to come.

Run with the Tide

Another option for charities is to run, but run with the tide. As the 14th-century Europeans and the roaring 20s Americans learned, recovery from crisis can be achieved through planning, preparation and determined execution.

[17] Paralysis by Analysis: How Too Much Data Can Stifle a Marketing Campaign, HubSpot

Charities can use this period of social distancing and work-from-home to:

- Bring the leadership together (electronically) to assess the situation;
- Connect with staff and volunteers to listen to their thoughts;
- Reach out to donors, supporters, members, suppliers and partners;
- Assess the current situation regarding income, savings and expenses;
- Identify elements which are critical to maintain, what can wait, what can stop;
- Reflect on your mission, vision and values: are they still relevant?
- Review the past few years and see how the market and environment have changed;
- Identify what needs to change; can remain the same; and needs further examination; and
- Decide if the organization can continue or needs to seek an alternate future.

Only after you have completed a period of reflection can you start to formulate a plan to move your organization forward. The key element here is time: review, analyze, plan and then ACT. Once we start to recover from this pandemic, those who have prepared for the new reality will emerge in full stride. Those who believe life will return to the way it was in February 2020 will be left behind to watch as their market share, supporters, donors and volunteers are taken up by others.

*The Incas thought life would return to normal once the pandemic was over.
Little did they know the Spanish had other plans.*

Mergers, Amalgamation and Consolidation

One option is to look at competitors in your sector as potential partners. This may require an examination of the very principles of your charity, your ability to recover from the COVID-19 crisis, and your organization's political will to consider combining forces with others.

Canada Revenue Agency (CRA) has specific rules surrounding the combining of charities. A charity contemplating such a move should seek counsel early on as the path to merger, consolidation or amalgamating two or more charities is not simple, takes time and requires a solid commitment by all parties. Legal firms in Canada have people who can help assess the CRA regulations and how they apply to your situation.

From the CRA website:

"Two or more registered charities can join together as one body in response to changing circumstances or changed objectives. They can join through an amalgamation, merger, or consolidation.(continued)

Amalgamation: When charities amalgamate, they bring their memberships, assets, and liabilities into the entity that emerges. The original charities do not cease to exist or dissolve. Although they no longer have separate identities, they continue to exist within a single entity—the amalgamated charity.

Merger: In a merger, one or more entities wind up their affairs and transfer their assets to another registered charity. All the assets are transferred to the remaining organization.

Consolidation: In a consolidation, all the original bodies dissolve and transfer their assets to a new entity.”[18]

Seek Help and Advice



Small charities often feel professional development and consulting services are only available to large, well-resourced charities and nonprofits. There are myriad resources available from AFP[19], Charity Village[20], the Chronicle of Philanthropy[21] and many others on the web. Several books are available which focus specifically on philanthropy and Fund Development in Canada.[22]

Online services are now available to provide personal one-on-one or group coaching in small blocks of time at a reasonable cost. Global Philanthropic Canada has just released **Virtually GLOBAL™**, an online platform for small or remote charities to access industry-leading consultants quickly and easily. This innovation in fund development consulting brings state-of-the-art advice into your office or home office, regardless of where you are in Canada or around the world. See more at globalphilanthropic.ca.



[18] Canada Revenue Agency cra/services/charities-giving/charities/operating-a-registered-charity/making-changes/amalgamations-mergers-consolidations.html

[19] [The Association of Fundraising Professionals.https://afpglobal.org/afp-canada](https://afpglobal.org/afp-canada)

[20] [Charity Village. https://charityvillage.com](https://charityvillage.com)

[21] [The Chronicle of Philanthropy. https://www.philanthropy.com](https://www.philanthropy.com)

[22] [Excellence in Fundraising in Canada Vol 1 and Vol 2, Guy Mallabone et al., Civil Sector Press, Hilborn Group](#)

The Beginning of a New Reality

There is hope. Things around us will change. Charities and nonprofits will have to change, too. There is no option about that, but you do have choices. The world and the charity and nonprofit sector will be a very different place in the coming months.

There are people who can help you through this. Reach out and ask.

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Richard holds a Bachelor of Science Degree from the University of Victoria. He is an Alumnus of the Banff Centre School of Management and certification instructor and frequent presenter at the Association of Fundraising Professionals (AFP). He has been a keynote speaker at the Organization for Economic Cooperation and Development (OECD), Canadian Council of Ministers of Education, the Association of Canadian Community Colleges and has made presentations to the Parliament of Canada and provincial governments.

Richard was former President and CEO of WorldSkills Canada, CEO of the Jubilee Auditorium Foundation, Vice President of Ducks Unlimited and Managing Director of the University of Alberta southern office. He has been a guest lecturer at the Saskatchewan Institute of Applied Science and Technology, SAIT Polytechnic, the University of Victoria and a guest presenter at Cambridge University in the U.K.

Richard is a co-author of *Excellence in Fundraising in Canada*, one of the Globe and Mail's best selling business books.

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