

A Contingency View of the Responses of Voluntary Social Service Organizations in Ontario to Government Cutbacks

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Abstract

Voluntary organizations in Ontario have been thrust into a new environment; government funding on which they have traditionally counted has been reduced to the extent that actions have to be taken in order for some organizations to survive. Using a sample of 85 from a mailed survey to voluntary social service organizations in Toronto, we collected information on how organizational characteristics are influencing the actions taken in the face of these changes. We found that the alternatives considered factored into five dimensions: enhancing the image of the organization; cutting costs; developing strategic plans and accountability; implementing new tactics, such as user fees; and restructuring the governance and management structure. Analysis showed that younger organizations, smaller-sized agencies, and those with a diverse set of funding sources employ a wider range of options to deal with environmental challenges. Many of these options are directed at protecting the main mission of the organization and building awareness and marketing strength so that the organization reduces its susceptibility to environmental shifts.

Résumé

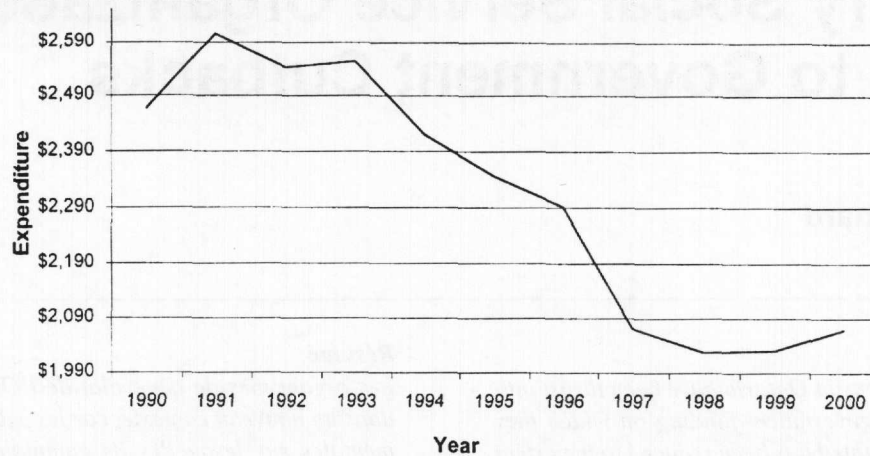
Les organismes de bénévolat de l'Ontario sont plongés dans un nouveau contexte, car les subventions gouvernementales sur lesquelles ils comptaient jusqu'à présent sont réduites à un point tel que des mesures doivent être prises afin qu'ils puissent survivre. Un sondage effectué par la poste auprès de 85 organismes de services sociaux bénévoles de Toronto nous a permis de rassembler des données montrant que certaines caractéristiques organisationnelles peuvent influencer les mesures à prendre face à de tels changements, et nous avons envisagé cinq solutions possibles pour remédier à la situation : rehausser l'image de ces organismes; réduire leurs coûts; mettre sur pied certaines stratégies et rendre compte de leurs activités; utiliser de nouvelles tactiques, tels des frais d'utilisation; ainsi qu'en restructurer l'administration et la gestion. Il ressort de cette analyse que les organismes plus récents et de plus petite taille ainsi que ceux bénéficiant de sources de financement plus variées peuvent utiliser un plus vaste ventail d'options pour contrer les difficultés que présente la conjoncture actuelle. La plupart de ces possibilités visent à préserver la mission principale de ces organismes et à renforcer leur vision et leur politique de marketing afin de réduire leur vulnérabilité face à tout changement conjoncturel.

Globalization, the digital revolution, and fundamental shifts in policies and politics have had a well-documented impact on both the for-profit and voluntary sectors in Canada (Drache & Ranachan, 1995; Johnson, McBride, & Smith; 1994). Although the earliest recorded voluntary organization dates back to 1685 (J. Scott, 1992), the sector became an economic force only in the

last 35 years as it grew in tandem with the emerging welfare state forged in Canada following World War II. In Canada during the halcyon postwar years, both the federal and provincial governments encouraged the formation of voluntary organizations. They were to be part of an elaborate social welfare system, allies of the state, extending specialized services that the government was uninterested in or unable to provide. Many organizations were created, representing a myriad of causes, interests, and groups. Not only did voluntary organizations receive generous core and service-related funding from government sources, but more importantly, they also gained legitimacy to represent and serve their various con-

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Figure 1
Ontario Social Expenditure (per-capita)



Source:

Calculations were based on the following data:

- Summary of Expenditure by Standard Accounts Classification and Ministry. In *Ontario Public Accounts 1989-1990 to 1999-2000*, Toronto: Queen's Printer.
- Summary of Expenditure by Standard Accounts Classification and Ministry. In *Ontario Public Accounts 1990-1991 to 1992-1993*, Toronto: Queen's Printer.
- Statement of Operations and Accumulated Deficit. In *Ontario Public Accounts 1993-1994 to 1999-2000*, Toronto: Queen's Printer.
- Summary of Expenditure by Standard Accounts Classification and Ministry. In *Ontario Public Accounts 1989-1990 V. 1 to 1999-2000*, Toronto: Queen's Printer.

stituencies (Tucker, Singh, Meinhard, & House, 1990). By the mid-1970s the construction of the social welfare system, which involved delivery of programs and services by both government and voluntary agencies, had been largely completed. This collaborative infrastructure provided a munificent and stable environment, encouraging the rapid growth of the sector.

Since the mid-1980s, however, there has been a creeping erosion of the social welfare state in Canada as neo-conservative political philosophy has come to replace the social democratic liberalism of the postwar era (Hall & Banting, 2000; Jeffrey, 1999; McBride & Shields, 1997; Prince, 1999). Both the federal and provincial governments have been withdrawing from direct service provision in several areas of social welfare with the expectation that the voluntary sector will fill any resulting gaps in the social safety net. At the same time, a decrease in government support of the voluntary sector has limited its capacity to respond to an increased demand for its services (Hall & Banting, 2000; Picard, 1997). The situation in Ontario was particularly severe. Within three weeks of the Tories winning a majority government in 1995, government spending was cut by \$1.9 billion. This included significant decreases in municipal

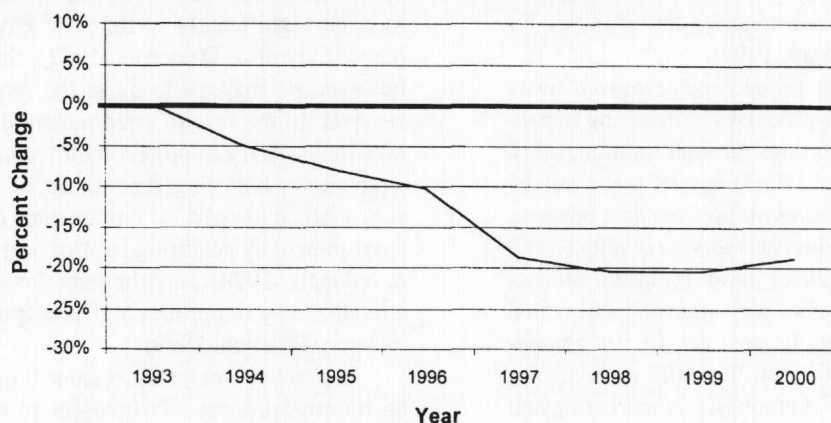
transfers, which in turn fund many social service organizations (Moscovitch, 1997).

As Figures 1 and 2 show, the decline in social service support in Ontario was both deep and dramatic. The support levels in 1997 were a full 20% lower than 1993 levels. The drastic reduction in government support has meant organizations have had to develop strategies and tactics to ensure their ability to deliver current programs and services. The purpose of this paper is to investigate how the characteristics of voluntary social service organizations in Toronto influence the choice of strategies and tactics to respond to the "hard right turn" in political philosophy in Ontario (Jeffrey, 1999).

Responses to Changes in the External Environment

In times of environmental turbulence, organizations are often forced to undertake changes to survive. In the for-profit sector, environmental turbulence is defined as increasing competition brought about by technological advances, globalization, increased consumer discretion, and reduced consumer spending (Muzyka, DeKoning, & Churchill, 1995). Competition is clearly the most signif-

Figure 2
Ontario Social Expenditure Percentage Change from 1993 (per-capita)



Source:

Calculations were based on the following data:

- f Summary of Expenditure by Standard Accounts Classification and Ministry. In *Ontario Public Accounts 1989-1990 to 1999-2000*, Toronto: Queen's Printer.
- g Summary of Expenditure by Standard Accounts Classification and Ministry. In *Ontario Public Accounts 1990-1991 to 1992-1993*, Toronto: Queen's Printer.
- h Statement of Operations and Accumulated Deficit. In *Ontario Public Accounts 1993-1994 to 1999-2000*, Toronto: Queen's Printer.
- i Summary of Expenditure by Standard Accounts Classification and Ministry. In *Ontario Public Accounts 1989-1990 V. 1 to 1999-2000*, Toronto: Queen's Printer.

icant regulatory mechanism in the for-profit sector, determining both organizational foundings and organizational demise (Drucker, 1990, 1993; Krebs, 1978). In the not-for-profit sector, on the other hand, it is the institutional environment that affects ultimate survival (W. Scott, 1981). In contrast to the for-profit sector, a significant feature of voluntary organizations is that measuring profit, one of the clearest indicators of organizational performance, is not applicable. This limits their ability to demonstrate effectiveness in terms of conventional output, efficiency, or process criteria. Under these conditions, social criteria are most likely to be used to judge effectiveness (Daft, 1995). This suggests that voluntary social service organizations are specifically vulnerable to conditions and constraints that have their origins in institutional environments, and factors such as the acquisition of external institutional support, significantly affect their chances of survival. When this support is reduced, as happened during the restraint programs of the government of Ontario in the late 1970s and early 1980s, there is a significant increase in both organizational change initiatives and organizational deaths in the voluntary sector (Singh, Tucker, & Meinhard, 1988, 1991; Tucker et al., 1990).

Although the current drastic decrease in government support of social programs is without precedent in the public sector in Ontario, the private sector has been only too familiar with that level of economic difficulty. New global competitive forces have combined with technological innovations to make the 1980s and early 1990s a time of economic turbulence and, as a result, the way private sector companies do business has been dramatically transformed. Muzyka et al. (1995) note that there have been two reactions in the for-profit sector to these forces of change. Some companies have chosen to enact one-time corrections to adapt to the new environment, while others have seized the opportunity to create a new organization that is better equipped to adapt to change on a continuing basis, rather than as a response to a periodic crisis. In his investigation of 26 public and nonprofit organizations, Light (1998) found that those which adopted an open, more entrepreneurial culture that encouraged exploration and innovation were the most successful in dealing with turbulent environments.

Initially, in order to deal with the new global competitive situation, most companies implemented a cost-cutting agenda. This included downsizing, overhead reduction, de-layering, process redesign, and portfolio



rationalization (Hammer & Champy, 1993). But the results of this type of organizational transformation have rarely resulted in a fundamental improvement to the corporation because downsizing focuses on correcting mistakes of the past, rather than creating opportunities for the future (Hamel & Prahalad, 1994).

In the late 1990s, the private sector moved away from streamlining business processes to investing in people to create future opportunities through training, sales, and marketing. MacDonald (1995) reports that a survey of 400 senior executives representing Canada's business community found that product and service quality (33%) and employee training (20%) have replaced process reengineering (5%) as the top internal concerns. Although there will always be cost sensitivity, companies are now focused on the top line with more than a quarter identifying increased emphasis on marketing and sales as the area in which the approach to business is changing. Both market or demand generation (43%) and sales or distribution management (34%) were identified as the most critical business processes for maximum corporate performance.

Another focus of organizational change in the for-profit sector has been on building an entrepreneurial corporation. Characteristics of entrepreneurial organizations include being able to recognize an opportunity, possessing the tenacity to follow it through to create real value, and providing the appropriate organizational structures and behaviour to ensure that the process can be repeated. Organizations that have made a successful transformation to entrepreneurial corporations made changes on a number of levels including strategy, structure, process, and, most importantly, the use of human resources (Muzyka et al., 1995).

Given the government's role as the key funder for many social service organizations, the reduction of support for these activities in Ontario is bound to have a major influence on the operations of individual organizations and the activities of the sector as a whole. It is now clear that the government's reduced role in social services is not a short-term response to the desire to have a balanced budget and to retire the deficit, but rather a fundamental shift in the definition of the role of government (Prince, 1999). Underlying this change is the inherent assumption that private sector practices and technologies are superior. There is a belief that nonprofit organizations may be able to attain the levels of efficiency and effectiveness demanded by both government funders and other donors by adopting the business model (Alexander, 1999).

The trouble is that, due to the structural inertia of organizations, it is very difficult for them to change quickly enough in response to environmental pressures. Instead, in times of environmental upheaval and niche

disappearances, many organizations that are unable to change simply die and are replaced by new ones that meet the requirements of the new niches (Hannan & Freeman, 1977, 1989). Death rates of organizations increase significantly in times of environmental turbulence (Carroll & Delacroix, 1982). Some organizations, however, do manage to make the requisite changes for survival. In the face of environmental uncertainty, organizations will try to protect their technical cores through strategies of buffering, smoothing, or rationing (Thompson, 1967) and strive to reduce their dependence on the environment by acquiring control over resources (Pfeffer & Salancik, 1978). Environmental control may be operationalized by nonprofits as diversifying their sources of revenue (Froelich, 1999).

In practice, nonprofit organizations have developed an impressive array of strategies to deal with environmental shifts. Emil and Hyman (1997) list 185 solutions employed by nonprofit organizations to cope with cutbacks under the broad headings of cutting or controlling costs, increasing revenues, modifying organizational structures, and becoming more engaged with external networks and other sectors. Alexander (1999) found that the most frequently selected strategy for coping with external funding threats was reducing staffing while increasing individual workloads. This strategy was chosen by 55% of nonprofit organizations as a way to maintain their core mission. Other strategies included relying more on volunteers (30%), consolidating management structures (26%), and eliminating services or programs (20%). Alexander (1999), like others (Salamon & Anheier, 1996; Van Til, 1988), found that one of the consequences of the shift to business practices and processes has been "mission drift", a reallocation of resources from service delivery to grant writing, fund-raising, and documenting. Palmer (1997) suggested that public, nonprofit, and for-profit organizations may respond differently to the same external threat. For example, nonprofit arts organizations are more likely to consider relocating or downsizing in the face of funding difficulties than are public arts organizations.

Several organizational factors may influence the reaction of voluntary agencies to the changes in the external environment and their preferred responses. For example, younger organizations may employ a wider range of strategies than older more secure organizations because the new ones must establish their legitimacy. This may necessitate experimenting with a range of strategies and options (Freeman, Carroll, & Hannan, 1983; Hannan & Freeman, 1977; Stinchcombe, 1965). Newer organizations are also more likely to view the results of change efforts more positively (Durst & Newell, 2001), which may make them more willing to try out new strategies. On the other hand, younger orga-

nizations may not be as successful as older organizations in implementing some of the strategy alternatives. Foster and Meinhard (2000) found that despite a strong interest in diversifying funding sources, younger organizations had less access to resources. Stinchcombe (1965) pointed out that it takes time to establish legitimacy and a credible track record. Until this is accomplished, resources will be limited to new organizations. However, in their quest to establish legitimacy, young organizations will continue experimenting with different strategies until they either succeed in the eyes of their stakeholders, or succumb to the liability-of-newness (Hannan & Freeman, 1977, 1989; Stinchcombe, 1965). From these observations, we derive our first hypothesis:

H1: An organization's response to shifts in the external environment will be influenced by age. Younger organizations will have a wider range of responses.

A second organizational characteristic that may affect choice of coping strategies is size. Pfeffer and Salancik (1978) found that medium-sized organizations are more vulnerable to environmental fluctuations than either large or small ones. Large, generalist organizations, straddling several niches, are able to ride out environmental changes in one or more of their niches without endangering the whole organization. Large organizations also have sufficient slack resources to support the change process in affected areas. Small organizations cannot cope with changes simply by riding them out. They have to be flexible and responsive. Because they are generally more organic, it is easier for them to be more responsive to environmental fluctuations (Daft, 1995). From these observations we derive our second hypothesis:

H2: An organization's response to shifts in the external environment will be influenced by the size of the organization. Smaller organizations will have a wider range of responses.

A third factor influencing the strategic choices of nonprofit organizations is the number of funding sources an organization has acquired. Organizations with multiple funding sources are less vulnerable to the influences and demands of any single exchange partner (Knoke, 1983). Thus, they may be able to focus on broader community problems in order to gain recognition and profile (Bielefeld, 1992). Organizations with a variety of stakeholders and client groups are more likely to have a wider repertoire of responses to environmental pressures because they are used to meeting the needs of different groups. While agencies receiving government funding have to meet federal and provincial criteria for grant holders, those which also receive donations from indi-

viduals and corporations have to position their cause favourably in order to compete successfully for charitable dollars (Hall & Banting, 2000). There are also stringent accountability and performance measures laid down by some donors (Phillips & Graham, 2000). In order to deal with this new fiscal reality, some organizations are strategically recruiting board members who can provide the necessary guidance to access non-governmental funding sources (Meinhard & Foster, 2000). From these observations we derive our third hypothesis:

H3: An organization's response to shifts in the external environment will be influenced by the diversity of funding sources supporting it. Organizations with diverse funding sources will have a wider range of responses.

The final factor influencing strategies and tactics chosen to cope with external environmental challenges is organizational culture. Previous research suggests that nonprofit agencies have a different organizational culture than for-profit companies (Bloom & Novelli, 1981; Drucker, 1989; Rothschild, 1979). Unlike for-profit companies, nonprofit organizations have to be concerned with both resource attraction and resource allocation. They do not enjoy the same control over sources of revenue because their donors or government granting agencies may put restrictions on how the funds may be spent (Kotler & Andreasen, 1996). The interactions and competing agendas of nonprofit stakeholders influence the resource base and create organizational challenges different from the for-profit sector (Maranville, 1999). In addition, accomplishments are difficult to detect because of their inherent intangibility and measurement difficulty (Drucker, 1973).

However, external environmental challenges may be influencing the organizational culture of nonprofits to shift. Van Til (1988) suggests that more and more nonprofits resemble "tax exempt businesses". Despite much of the nonprofit enterprise literature focusing on the differences between for-profit and nonprofit commercial activities, Dart and Zimmerman (2000) found no differences between how these two groups organize commercial ventures. This is in spite of mission and regulatory differences. While for-profits exist to create value and profits for shareholders, nonprofit organizations exist to meet societal goals (Hirshhorn & Stevens, 1997). The only restraint on charitable organizations is that in return for tax-exempt status they must spend 80% of their income for charitable purposes. The only requirement for nonprofits without charitable status is that the pursuit of profit cannot be an organizational goal (Scharf, Cherniavsky, & Hogg, 1997). This makes it difficult for charities and nonprofits to engage in unrelated businesses, and therefore may stifle some of their entrepreneurial leanings.

In the past it has not been a priority for voluntary organizations to embrace entrepreneurship because these skills have not been important for survival. Wilson (1984) suggests that staff attitudes within voluntary organizations play a major role in negative feelings about marketing and entrepreneurship. Professionals working in this sector do not share the values promoted in commerce because of the association with a "hard sell". For many, marketing and entrepreneurship imply payment, which has not been part of a social agency's relationship with its clients. When hiring staff, these organizations do not seek out people with skills in marketing and entrepreneurship, as these have not previously been seen as valuable competencies. In addition, voluntary social service agencies in many jurisdictions traditionally have operated with significant funding support from all levels of government. Consequently, developing marketing and entrepreneurial skills has never been a priority, since funding was more or less assured.

However, given the dramatic shifts in the relationship between voluntary organizations and their traditional funder, the government, everything has changed. As Phillips and Graham (2000) point out, voluntary organizations have had to become more business-like in their attitudes and behaviour. This includes undertaking more commercial ventures to generate revenue (Dart & Zimmerman, 2000) and adopting new governance and management structures and practices (Froelich, 1999; Peterson, 1986). There is more emphasis on recruiting board members who are more business-oriented and entrepreneurial rather than selecting those more socially focused (Adams & Perlmutter, 1991). The attitudes of nonprofit employees have also become more consistent with private sector employees in that they value management training for career development and have expanded their vocabulary to include words such as "marketing" (J. Scott, 1997). With the increased emphasis on commercial ventures, success is more likely to be defined by short-term outcomes rather than long-term societally focused objectives (Dart & Zimmerman, 2000).

The push towards a more entrepreneurial culture may be influenced by the increased involvement in commercial activities. Entering into a commercial venture for a nonprofit organization may be similar to an entrepreneur's starting a new business, because both activities involve considerable financial risk (Dart & Zimmerman, 2000). In the face of social, political, and economic shifts, large for-profit organizations have attempted to integrate the attitudes and behaviours of smaller, more entrepreneurial organizations into their corporate structure and culture in an attempt to be more competitive and responsive to market needs (Muzyka et al., 1995). Given that nonprofit organizations are experiencing similar external challenges, we expect to see evidence of the

development of an entrepreneurial culture in the voluntary sector. The strength of this cultural attribute in an individual organization will influence the choices made to respond to the shifts in the external environment. From these observations we derive our final hypothesis:

H4: An organization's response to shifts in the external environment will be influenced by its culture. Organizations that are more entrepreneurial will have a wider range of responses.

Method

Sample

We contacted the Executive Directors or Presidents of about 200 voluntary social service organizations chosen randomly from among the small organizations listed in the *Blue Book: Directory of Community Services in Toronto* and asked them to participate in this survey. We defined voluntary social services organizations as organizations concerned with changing, constraining, and/or supporting human behaviour; governed by a board of directors; operating on a not-for-profit basis; and offering a wide range of services from highly specialized legal, medical, and counselling services performed by professionals to less specialized settlement, interpretation, and distribution services performed by volunteers (Singh et al., 1991).

One hundred and eighteen organizations agreed to complete the questionnaire that was mailed or faxed to them. By the fieldwork deadline, 100 questionnaires had been returned, but only 85 had sufficient information to be included in the analysis.

Questionnaire

The questionnaire contained 91 items investigating how voluntary social service organizations are responding to the new budgetary reality, what consequences and challenges they anticipate as a result of the new funding philosophy, and what skills are present within the organization to handle their current challenges. In addition, we collected data about the organization's mandate, size, structure, and entrepreneurial predisposition.

Independent Variables

Four independent variables were used to test the hypotheses: organizational age, organizational size, funding sources, and entrepreneurial culture.

Organizational age. The data for the age of the organization were not collected as a continuous variable, but rather with age grouped into five categories, with more

than 10 years as the final open-ended category. We expected to have many organizations in the 10 years or less categories, but the distribution was skewed toward the upper end of the scale. Three-quarters of responding organizations had been in existence for more than 10 years. Results from a nationwide study conducted at a later date suggest that one reason for this skewed distribution may be a disproportionate number of organizational deaths among younger organizations (Meinhard & Foster, 2000). Because of the limitations of the original question and the distribution of responses, this variable was recoded into organizations existing for 10 years or less (25%) and those in existence for more than 10 years (75%).

Organizational size. This variable is traditionally measured either by size of budget or number of employees (Kimberley, Miles, & Associates, 1981). For this study, we used number of employees to operationalize size. We collected data on the exact number of staff up to 10 and then grouped the rest into a 10+ category, because we anticipated having few large organizations in the sample. A similar scale was used to collect information on part-time staff members. For the purposes of analysis, these variables were combined and treated as an interval level scale measuring number of full- and part-time staff.

Funding sources. An index of total sources of funding was created from the raw data by adding the number of positive responses. The various sources were distributed as follows: all levels of government (88%); United Way (32%); special events (73%); membership or user fees (53%); and other sources (41%).

Entrepreneurial culture. We developed a series of statements covering entrepreneurial predisposition based on some of the most commonly displayed characteristics associated with organizations with an entrepreneurial focus. We assumed that there is no ideal entrepreneurial profile and that entrepreneurial tendencies are not an all-or-none trait that some people or organizations possess and others do not (Bhide, 1994; Rumball, 1989; Stevenson & Gumpert, 1991).

The five statements measuring entrepreneurial traits were:

1. "We tend to support new projects in stages, as they demonstrate their value." This statement measures flexibility in implementation. Stevenson and Gumpert (1991) indicate that entrepreneurs seek plateaus of success where they can consolidate gains before moving forward. In addition, they often do not have the financial resources to give a complete commitment to a project.
2. "We are driven to find new ways in which to serve clients." This statement measures responsiveness. According to Stevenson and Gumpert

(1991), entrepreneurs do not follow planning systems and cycles because their road map for success includes the ability to respond quickly to rapid changes in technology and shifts in consumers' wants, needs, and desires.

3. "Standard checklists are (not) used extensively." This statement measures innovative mind-set. From an entrepreneur's perspective, a "one-size-fits-all" strategy is neither appropriate nor useful (Bhide, 1994).
4. "We tend to integrate action and analysis; that is, we do not wait for all the answers." This statement measures action-orientation. Bhide (1994) suggests that entrepreneurs believe that doing something concrete builds confidence and they are prepared to move forward, even if they do not have all the answers.
5. "Even though many voluntary social service organizations may not survive this new budgetary climate, we are confident we will survive." This statement measures self-confidence. One of the fundamental aspects of an entrepreneurial mind set is an almost arrogant self-confidence (Bhide, 1994).

Dependent Variables

Respondents were presented with a range of strategies and tactics available to organizations to respond to the changing external environment. They were asked to indicate, on a scale of one to five, the extent to which they engaged in each. The items were factor analyzed to provide a more comprehensive picture. Principal component analysis using Varimax rotation converged in six iterations to reveal five underlying factors explaining 66.4% of the total variance. We developed indices by combining the items making up each factor. The resulting indices are presented in Table 1. The first index, developing image, includes public relations and marketing activities. The second index relates to cutting costs, and includes reductions in services, clients served, and staff. Strategy development is the third index and includes general principles, such as developing a formal plan and focusing on accountability, as well as specific strategies such as sharing programming and funding responsibilities with similar agencies. The fourth index describes tactics used by organizations such as charging fees and recruiting volunteers. The final index is restructuring, referring to both the board structure and the management of the organization. We used these indices as the dependent variables for testing our hypotheses, as well as a combined index, which included all 16 response categories.

Table 1
Factor Analysis Results for Response Items

Rotated Component Matrix for Response Items	1	2	3	4	5
<i>Image Dimension</i>					
Developing a plan to increase public awareness of the organization	.784				
Spending more time making presentations to external organizations	.772				
Pursuing mutually beneficial relationships with private sector corporations	.764				
Spending more time fundraising	.722				
Spending more time on public relations	.635				
<i>Cutting Costs Dimension</i>					
Reducing range of services offered		.898			
Reducing the number of clients served		.830			
Firing or laying off employees		.643			
<i>Strategy Dimension</i>					
Focusing on the accountability of the organization as a reason for continued support			.751		
Developing a strategic plan to guide the organization			.710		
Collaborating with similar agencies to share programming and funding responsibilities			.476		
<i>Tactics Dimension</i>					
Identifying new service opportunities to increase the organization's visibility				.783	
More focus on recruiting volunteers				.634	
Charging user fees				.512	
<i>Restructuring Dimension</i>					
Restructuring the board					.841
Restructuring the management of the organization					.769

Results

We analyzed the data using SPSS factor analysis, correlation, and one-way analysis of variance.

Description of the Sample

Almost 90% of organizations in the sample receive funds from government grants to support their operations. In addition, 80% have a charitable number, which allows them to issue income tax receipts for donations.

Each organization reports being involved in several areas of social service delivery. The most often mentioned are self-help (64%), health (62%), advocacy (62%), and family (51%). When asked for the main mandate of the organization, 37% say direct care services, 21% counselling, 20% advocacy, 11% education, and 11% training.

More than half of the organizations in the sample have fewer than 10 full-time paid staff. The average size

of the board is 10 to 14 members. Most describe their organization as having a formal structure with the Executive Director being involved in day-to-day operations and the Board's focus being on strategic issues. About three-quarters of respondent organizations have been in existence for more than 10 years.

Organizations definitely feel there has been a shift in the external environment. Almost 60% feel that the current budget direction of the government will have a great deal of impact on their organization and one-third feel it will have a fair amount of impact. In our sample, cost cutting is much less popular than image enhancement activities as a response to environmental challenges. Only 19% are giving a great deal of consideration to firing or laying off employees, 12% to reducing services, and 12% to reducing the number of clients served. On the other hand, 22% are giving a great deal of consideration to spending more on public relations activities, 33% to developing new service opportunities, 31% to developing a plan to increase public awareness of the



Table 2
Summary of Results (ANOVA and Correlations)
Response Factors by Each Independent Variable

Response Factor	Younger Orgs.	Smaller Orgs. (correlations)	United Way Funding	Special Event	Member Fees	Total Funding Sources (correlations)	Culture
Image		r = -.23 .043	.072	.002		r = .33 p = .003	
Cost-cutting Strategy	.078		.075	.093			
Tactics				.020	.000	r = .31 p = .005	
Re-structuring							
Total Responses			.037	.003	.084	r = .31 p = .004	

organization, and 39% to spending more time fund-raising. In terms of their ability to handle the challenges they will face, organizations feel more equipped to handle some issues and less equipped to handle others. They feel most equipped to handle external relations such as collaborating with other organizations (69%), management issues such as strategic planning and staff relations (61%), and human resource issues such as hiring and firing (61%). They feel least equipped to handle marketing issues such as developing awareness and public relations programs (48%), volunteer issues such as recruitment, training and retaining (46%), and fund-raising issues such as making presentations and establishing private sector linkages (40%). This is consistent with previous research on staff training. According to a 1993 study of health care/human services administrators, 54% view formal business education as very important and 65% rank education in marketing as an important need (Hazel-Ford, 1993).

A number of organizations in the sample feel they have already incorporated entrepreneurial attitudes as a major feature of their culture. Sixty-seven percent are driven to find new ways to serve their clients, 58% are confident they will survive, 51% make minimal use of standard checklists, 47% support projects in stages, and 46% integrate action and analysis.

Testing of Hypotheses

Table 2 summarizes the analysis of variance and correlation results for all the independent variables with the factors derived from the response alternatives.

The first two hypotheses focus on how organizational age and organizational size may affect the responses of voluntary social service organizations to the changing environment. Since it is possible that age and size may be related, with younger organizations being smaller, we tested the relationship between organizational age and organizational size using our recoded age variable as the independent factor with our total size variable. One-way analysis of variance indicated no significant relationship ($F = .860$, $df = 1,78$, $p = .357$). Thus, any concern that these two variables may be measuring the same phenomenon is unfounded.

Organizational age. The first hypothesis stated that younger organizations would have a wider range of responses to environmental challenges. Young organizations have not yet institutionalized their practices and may still be experimenting with different options. As they strive to find their niche and gain legitimacy, they are expected to be more open to experimenting with different options (Freeman et al., 1983; Hannan & Freeman, 1977; Stinchcombe, 1965). There is only very limited support for this hypothesis in the data.

The only factor that has even a marginal relationship to age is the strategy index ($F = 3.10$, $df = 1,81$, $p = .078$). One explanation is that younger organizations were founded during a decade of intense social, political, and economic turmoil that required more focus on strategy, particularly in order to get initial start-up funding. In addition, younger organizations may have hired staff with a strategy predisposition to get funding. Age was not significantly related to any of the other response indices: image, cost-cutting, tactics, or restructuring.

Table 3
Factor Analysis Results for Entrepreneurial Items

Rotated Component Matrix for Entrepreneurial Items	1	2
<i>Factor 1</i>		
Supports new projects	.629	
Finds new ways to serve	.750	
Minimal use of checklists	.561	
<i>Factor 2</i>		
Integrate action and analysis		.815
Confidence in survival		.642

Organizational size. The second hypothesis stated that smaller organizations will have a wider range of responses to environmental challenges. It is argued that small organizations are more strategic and flexible and focus on select target audiences, while large organizations are less affected by external challenges (Pfeffer & Salancik, 1978).

As Table 2 shows, there is a statistically significant relationship between size and the index for developing an image. Correlation analysis reveals that the smaller organizations are more likely to engage in image activities than larger organizations ($r = -.23$, $p = .043$). This finding makes sense because, despite generous government funding in the past, organizations still had to compete with each other for recognition by policy-makers. Smaller organizations do not have the same public profile as larger organizations and thus have to focus on image building to achieve enough awareness and legitimacy to ensure consistent funding. There was no significant relationship between size and the other response indices: cost-cutting, strategy, tactics, or restructuring.

Funding sources. The third hypothesis states that organizations with diverse funding sources will have a wider range of responses to environmental challenges. There is support for this hypothesis in the data, as indicated in Table 2.

Those organizations receiving United Way funding employ significantly more options on the overall response index ($F = 4.51$, $df = 1,71$, $p = .037$), and marginally more on the image index ($F = 3.32$, $df = 1,71$, $p = .072$) and the cost-cutting index ($F = 3.25$, $df = 1,71$, $p = .075$). Using special events to raise money results in significantly more responses on the overall response index ($F = 9.54$, $df = 1,71$, $p = .003$), the image index ($F = 9.57$, $df = 1,71$, $p = .002$), the tactics index ($F = 5.65$, $df = 1,71$, $p = 0.02$), and marginally more on the

cost cutting index ($F = 2.89$, $df = 1,71$, $p = .093$). Organizations that charge membership or user fees score marginally higher on the overall response index ($F = 3.07$, $df = 1,71$, $p = .084$), and significantly higher on the tactics index ($F = 13.62$, $df = 1,71$, $p = .000$). When correlated, the index measuring total number of funding sources is significantly related to the total response index ($r = .31$, $p = .004$), the image index ($r = .33$, $p = .003$), and the tactics index ($r = .31$, $p = .008$). Diversifying funding sources necessitates the development of strategies to promote the image of the organization in order to compete effectively with other organizations that are also working to attract donor dollars (Hall & Banting, 2000). Organizations that seek external funding recognize the importance of marketing their cause to potential donors and are willing to devote time and effort to these activities. In addition, in order to be eligible for funds from external agencies, such as the United Way, voluntary organizations have had to conform to accountability guidelines laid down by the funders. In some cases, this has motivated a reconsideration of revenue sources, service delivery mechanisms, and management structure.

Entrepreneurial culture. The fourth hypothesis is that organizations that are more entrepreneurial will have a wider range of responses to environmental challenges. We did a factor analysis of the organizational characteristics that describe entrepreneurial behaviour. Principal component analysis of these five items revealed two factors, explaining 49% of the variance. Varimax rotation converged in three iterations. The first factor contains three items: supporting new projects in stages, providing new services for clients, and not using checklists. The second factor contains items relating to integrating action and analysis and confidence in survival.

We constructed three additive indices: one combining the three items identified in Factor 1; one combining the two items identified in Factor 2; and a third index combining all five of the items. We used these three indices as measures of the independent variable entrepreneurial culture. The expected relationship between entrepreneurial attitudes and organizational responses is not supported by the data. None of the entrepreneurial indices is related to any of the response indices.

Discussion

This study examined the influence of four organizational characteristics—age, size, revenue sources, and culture—on the nature and scope of responses to environmental changes. The options that we included as possible responses to the external environment appeared to be inclusive and representative of probable actions. These options loaded into five factors: developing

image, cost cutting, strategy, tactics, and restructuring, which are consistent with Kaynama and Keesling's (2000) study of the responses of HIV/AIDS organizations to anticipated changes. In their factor analysis, the items loaded into four dimensions: cost management, imagery, revenue producing, and donative. They found that organizations were most likely to employ cost management strategies, which refuted the findings of earlier studies by Keesling and Kaynama (1995) and Bielefeld (1992). Our results, on the other hand, are more consistent with Bielefeld's (1992) which found that organizations were most likely to engage in activities related to generating revenue, especially those which enhanced their image and awareness, as opposed to cost containment strategies.

This kind of strategy is in keeping with Thompson's (1967) framework for responding to external threats, which is one of protecting the core mission by smoothing resource flow and buffering the technical core from threatening and hostile events. What Thompson calls rationing is considered a last resort (Thompson, 1967). Indeed, in responding to the changes in the external environment, organizations in this study were more likely to report choosing revenue-generating and image-enhancing activities than cost-cutting options. This suggests that the organizations are trying to gain control over their environment instead of merely reacting to it (Pfeffer & Salancik, 1978).

Of the four factors hypothesized to explain variances in responses to environmental changes, only one was strongly supported by our findings—resource diversity. The results indicated that having diverse funding sources was the organizational characteristic most related to considering a broader range of responses to the external environment. Focusing on marketing, positioning, and building awareness are central to being attractive to diverse funders. Cost-cutting options as a response to external threats may also be related to external requirements to become more administratively efficient before being eligible for funds, and the fiscal sensitivity that develops as a result of the perceived risk associated with launching special events to raise money. This is consistent with the results of Dart and Zimmerman's (2000) study of organizations embarking on commercial ventures, in which they found increased attention to accountability and financial risk.

Interestingly, while organizations report wanting to embark on more fund-raising as a way of addressing environmental threats, they also report being least equipped to perform well in this area. This feeling may in part reflect more complete knowledge of the scope of skills necessary to do fund-raising well, the increased level and quality of competition now that quasi-public organizations such as hospitals and universities are

actively seeking donor dollars, and personal experience with the pervasive impacts of active fund-raising on all areas of the organization.

The hypothesis that younger organizations would have a wider range of responses to the environmental challenges was only weakly supported. The single response that age was even marginally related to was engaging in more strategy-type responses including more planning, a stronger focus on accountability, and more interest in collaboration. The lack of strongly significant findings may imply that younger organizations did not feel the impact of the changing environment more strongly than older organizations. This suggests that the dramatic reduction in funding and increased government downloading to the voluntary organizations was felt in every corner of the sector and that the propensity to employ a broader or narrower range of responses was not influenced by organizational longevity. A second reason for these weak results may be the lack of diversity in age among the respondent organizations: 75% had been in existence for 10 years or more.

The hypothesis proposing that smaller organizations would employ a wider range of responses than larger ones was supported only with respect to one type of response. The results showed that smaller organizations are more likely to engage in image development activities. This is understandable given the competitive climate for funding. Smaller organizations are less known to the general public, including funders, and therefore it is extremely important for them to enhance their visibility in order to be able to compete for funds. The lack of other strongly significant results may be related to the size variable itself. The literature reveals little consistency about either how size is operationalized (for example, number of employees or size of budget) or what size should be categorized as a small, medium, or large organization (Foster & Meinhard, 2001). Size is problematic not only in the voluntary sector. There are contradictory findings about the impact of size on the behaviour of for-profit firms in the face of environmental challenges (Gulati, 1995; Mulford & Mulford, 1977; Park & Ungson, 1997; Shan & Hamilton, 1991). A further reason why size may not be as significantly related to the range of responses as hypothesized is that this structural variable may be mediated by an attitudinal variable. As was demonstrated in another study of the Canadian voluntary sector, perceived environmental impact is a powerful mediating factor in predicting whether small organizations engage in collaborations. Because they perceive environmental impacts less strongly, they are less likely to be motivated to collaborate (Foster & Meinhard, 2001). Interestingly, voluntary organizations report that collaborations are important to them not because they reduce risk or costs, but because they

provide opportunities to improve services and enhance community involvement (Meinhard & Foster, 2000).

Our hypothesis that culture, defined as entrepreneurship attitudes, is positively related to the number of options being considered to deal with the external environmental challenges faced by the voluntary sector in Ontario has not been substantiated by the data. One explanation for this finding is that it may not be possible to capture entrepreneurship by the use of a scale because of the complexity of the concept and the lack of consensus about its determinants (Cooper & Dunkelberg, 1986; Jennings & Lumpkin, 1989; Kilby, 1971; Lumpkin & Dess, 1996; Schollhammer, 1982; Webster, 1977)

Given the lack of consensus, it is not surprising that no empirically tested scale was available for us to measure entrepreneurship in voluntary organizations. As a result, we constructed one based on the features of entrepreneurship that were generally agreed upon by scholars in the field. Clearly, more work needs to be done on scale development, but there were some encouraging signs. For example, there was a significant relationship between age of the organization and all the entrepreneurship indices. Organizations founded during the last decade when innovation, risk-taking, and vision were paramount to survival scored higher on the entrepreneurial indices than did organizations founded during a time when the external environment was more financially supportive of the voluntary sector. These characteristics that seem to be conducive to entrepreneurship are consistent with Miller's (1983) perspective that suggests that entrepreneurship at the organization level includes the three related dimensions of proactiveness, innovation, and risk-taking.

A further explanation for the lack of significant findings is that entrepreneurship is too complex a concept to be captured by a single scale of five items. There seems to be abundant support for that in the entrepreneurship literature. For example, a dominant theme has been how entrepreneurs embrace risk (Busenitz, 1999; d'Amboise & Muldowney, 1988; Hebert & Link, 1988; Stevenson & Gumpert, 1985). Although there is agreement that entrepreneurs face risk because they focus on new discoveries and innovations, there is little evidence to indicate that entrepreneurs have a predisposition toward risk (Brockhaus, 1980; Low & MacMillan, 1988). Explanations have ranged from entrepreneurs having a more optimistic appraisal of their chances of success (Cooper, Dunkelberg, & Woo, 1988; Palich & Bagby, 1995) to managing risk by avoiding it (Miner, Smith, & Bracket, 1989; Ray, 1994). Not only do different authors place different emphases on different determinants of entrepreneurship, but also there is no consensus about the impact of these determinants (Miller, 1983).

Much of entrepreneurship research has focused on personality trait theory as a predominant perspective (McCarthy & Leavy, 1998/1999; McGrath, MacMillan, & Scheinberg, 1992). The theory is that entrepreneurs present unique characteristics which in combination result in business success. Because of the perceived limitations in this approach, the process school of thought developed that investigates how entrepreneurs act (Gartner, 1985; MacMillan & Day, 1987). Further research has indicated that there may be two types of entrepreneurs: the charismatic who is the visionary idealist with an intuitive approach to strategy formation; and the pragmatist who is more calculating, down-to-earth, and rational. Most of the work to date has focused on the former, whereas there actually may be more of the latter in the population (McCarthy & Leavy, 1998/1999). In addition, Waddock and Post (1991) introduced the notion of the social entrepreneur, an individual who uses vision and skill to bring about catalytic change in the social agenda. The implication is that the concept of entrepreneurship goes beyond embracing risk and other aspects of personality theory. It may be more fruitful to measure deeds as opposed to attitudes as there is not one set of characteristics that leads to successful business outcomes. Given this perspective of entrepreneurship researchers, the scale used in our study to measure entrepreneurship among voluntary organizations is probably too focused on attitudes and too superficial to capture the essence of entrepreneurship.

In addition, researchers feel that entrepreneurship within an individual has to be conceptualized differently than entrepreneurship within an organization (Jennings & Lumpkin, 1989). For example, using Mintzberg's (1973, 1979) three modes of strategy and five structural characteristics, Miller (1983) found that, depending on the characteristics of the firm, entrepreneurship can be stimulated by the personality of the leader, by the commitment to product innovation, or by the challenges of the external environment. Our study focused on responses to the external environment almost exclusively, which may have been too narrow given Miller's findings.

Conclusion

Voluntary organizations in Ontario have been thrust into a new environment in which government funding has been reduced to such an extent that actions have to be taken in order for some organizations to survive. One of the worrisome aspects of the new governmental measures is that organizations may lose sight of their core mission in their attempt to deal with the new situation. This is not evident among the organizations we sampled. Improving and augmenting service is among their pre-

ferred activities while they shun cost-cutting measures that will affect their ability to deliver services. The options chosen by most of our respondents are directed at protecting the main mission of the organization and building awareness and marketing strength so that the organization reduces its susceptibility to environmental shifts.

We also found that organizations that already have a diverse set of funding sources employ a wider range of options to deal with the environmental challenges. Although neither organizational age nor organizational size had the expected impact on response options, we did find that younger organizations are more likely to engage in strategic planning and smaller organizations are more concerned with improving their image through a variety of activities.

Despite evidence in the literature purporting that voluntary organizations demonstrating a greater number of entrepreneurial characteristics are also more able to deal with external threats, our data did not substantiate that hypothesis. As is evident in the for-profit literature, entrepreneurship is a difficult concept to define and measure. In addition, there has been little research conducted on the extent and impact of this characteristic in voluntary organizations. Some suggest that small firms have to be considered a separate class when measuring entrepreneurship because of their unique structural characteristics (Lindsay & Rue, 1980; Robinson, 1982). Indeed, voluntary organizations may also be unique because of their mandate and the nature of their interface with the external environment.

This study contributes in several ways to the body of knowledge about nonprofit organizations. In terms of the behaviour of nonprofit organizations, this study provides quantitative support for what has mostly been anecdotal information. Nonprofit organizations in Canada are becoming more business-like in their behaviour and strategic choices in the face of the current environmental challenges.

The results of this study also support previous observations of differences between for-profit and nonprofit organizations around the concept of legitimacy. In the former, organizations are judged on their ability to deliver shareholder value (Hirshhorn & Stevens, 1997). What this study suggests is that, in the absence of quantifiable performance indicators, nonprofit organizations use image-enhancing activities as the mechanism for attaining legitimacy. Awareness levels are easier to measure and benchmark against than is the attainment of complex societal goals.

Finally, for entrepreneurship researchers, this study reinforces the conceptual and measurement challenges that are a feature of this scholarly area. It also suggests that culture within a nonprofit organization and its

impact on strategic choice requires more in-depth investigation and more sensitive measurement tools.

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