

## Non-Profit Leadership in Ontario: How Size Matters

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*Prepared for the Ontario Nonprofit Network (ONN)*

### Introduction

In 2012, the Ontario Nonprofit Network (ONN) underwent an evaluation of some of the critical issues inhibiting the success and growth of the nonprofit sector in Ontario. The top item identified was the need for a true Human Capital Strategy<sup>1</sup>, which involves succession planning and the development of a sustainable leadership pipeline.

In framing the strategy, three key focal areas were highlighted:

- Closing the leadership gap
- Finding and keeping talent, and
- Developing human capital.<sup>2</sup>

A strategy development plan was created by ONN that involves two major phases. In the first phase of the work, ONN partnered with Mowat NFP to gather and analyze a comprehensive survey of senior leaders in the nonprofit sector in Ontario, specifically focused on questions around human capital. This analysis resulted in a report titled *Shaping the Future: Leadership in Ontario's Nonprofit Labour Force*, which was authored by Mowat NFP and published in September, 2013.

The overarching findings of the full report were that , for the most part, the nonprofit sector in Ontario not only has a leadership shortage, but also a lack of planning in supporting the pipeline of leaders without formal policies toward supporting high-potential employees that could step into the Executive Director (ED) role. The initial report opened up many critical questions and asked whether we, as a sector, have the foresight to support the future of the sector itself.

What was uncovered is that, for the most part, the nonprofit sector in Ontario does not consciously plan ahead in the form of succession planning. Though the initial report highlighted that overall, we are not prepared for the future, the question still remains about whether this is truly due to a lack of foresight or more because of a lack of resources. ***Could it be that we are not planning ahead because we don't have the resources to do so?***

This report aims to uncover the answer.

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<sup>1</sup> Human capital being defined as “the collection of skills, knowledge, experience and personal attributes that create value in an organization.” Following this, “A human capital strategy is the development of plans and actions to align the human capital within an organization, or in this case as sector, so that it can effectively achieve its strategic goals.” (*Shaping the Future*, p.2)

<sup>2</sup> McIsaac, Elizabeth, Stella Park and Lynne Toupin. 2013. *Human Capital Renewal in the Nonprofit Sector: Framing the Strategy*. Toronto: The Mowat Centre and Ontario Nonprofit Network, p.1.

Taking the original dataset, which included 810 senior leaders in Ontario<sup>3</sup>, this study views the findings around succession planning and both identifying and supporting high potential candidates, through the lens of size – both in terms of number of employees and budget size.

The investigation showed that both level of resources and number of employees within the organization are factors that make a significant impact to whether an organization is able to identify high potential employees, support them and engage in succession planning as a whole. The intention is to open up the conversation of what level of resources is needed to be pro-active, to help equally inform practitioners on the ground doing their planning, funders supporting the work of the sector and policy makers setting the context for what matters.

Size *does* matter, but not always in the ways we think.

### **Why look at size**

On the one hand, it can be argued that the size of an organization is not a significant variable when it comes to future planning. That the challenges faced by nonprofit organizations when it comes to human capital preparation are the same across the board, that level of resources or number of employees does not make a difference to how effective or forward-thinking an organization can be when it comes to succession strategy.

Though it is tempting to accept blanket solutions across the board for the sector, the data, both here in Ontario and across the world, has proven otherwise. There are many gradations in the nonprofit sector when it comes to size and it differs even more so when you divide size into two different categories – number of employees and budget size.

The reason we chose to look at budget size as well as number of employees is to see what the influences are of sheer financial resources vs. more bodies to do the jobs, though, arguably, in many ways the two go hand in hand. Traditionally, nonprofits have been encouraged by funders to spend all funds on program work, with little consideration or resources provided for administrative costs or true overhead. Within this thinking, the respective organizations would have to find their own resources to support the growth of organizational capacity and many do so through innovative income generation initiatives. Although it is certainly more common for organizational size to grow alongside budget expansion, it is not always the case. There are a number of nonprofit organizations with significant budgets, but a low number of employees.<sup>4</sup>

For this analysis, we used the same breakdown of organizational size as the categorization in the original survey and report. The categories of organizational size are: **Micro** (1-5 employees), **Small** (6-10 employees), **Medium** (11-20 employees), **Large** (21-50 employees) and **Very Large** (51+ employees).

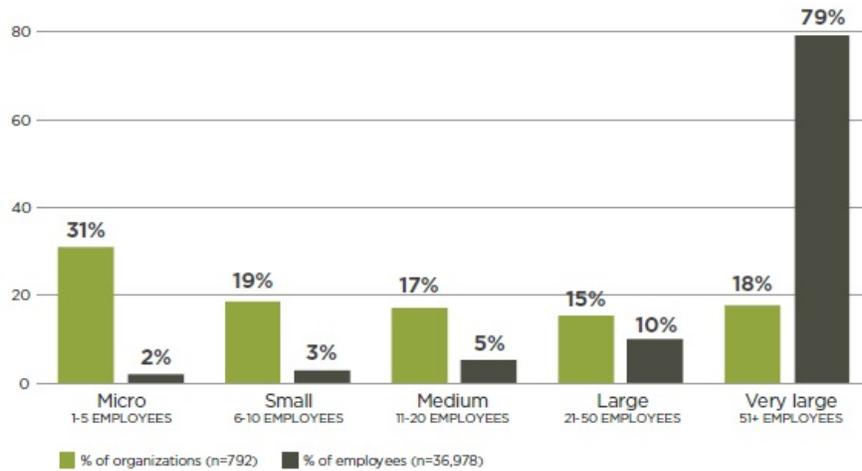
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<sup>3</sup> Please see p. 7 in *Shaping the Future* for a detailed explanation of the dataset.

<sup>4</sup> Foundations are one example of such an organization.

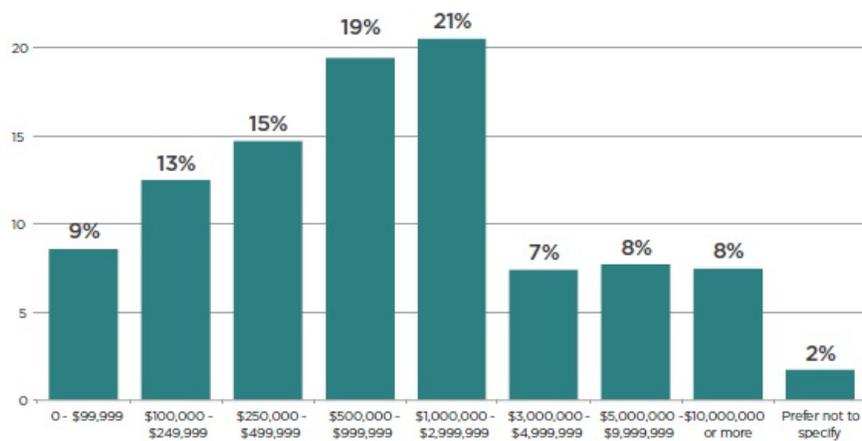
As the original report described and illustrated, in Ontario, exactly 50% of organizations fall in the Micro or Small categories, which means that half of all nonprofit organizations in Ontario have under 10 employees.<sup>5</sup>

DISTRIBUTION OF EMPLOYEES BY SIZE OF ORGANIZATION



When it comes to organizational budget size, the original breakdown categories were used as well. As illustrated below, within the sample size, 40% of organizations had an organizational budget between \$500,000 and \$1,000,000, with only 8% of organizations having a budget of \$10,000,000 or more.<sup>6</sup>

ANNUAL BUDGET OF THE ORGANIZATION IN THE LAST FISCAL YEAR



NUMBER OF RESPONDENTS: 810

<sup>5</sup> *Shaping the Future*, p.12.

<sup>6</sup> *Ibid.*, p. 13.

To get a sense of how this breakdown compares internationally, nonprofit organizational budgets in the UK, for example, are a great deal lower. In one study on nonprofit organizations in the UK<sup>7</sup>, it was shown that 70% of nonprofit organizations had budgets of £10,000 or less (approximately \$18,500). Though the breakdown of budget size is slightly different, the study in the UK proved the direct relationship increases in organizational size and expansion of support and training opportunities and a respective.<sup>8</sup>

Closer to home, on the North American continent, a recent study of non-profit executives in the United States confirmed that “how executives spend their time is significantly influenced by whether their organizations are large enough to have dedicated management staff across core functions”.<sup>9</sup> In the US, the tipping point when it came to size for US organizations was a staff of over 25. It is at that point where the organization starts to have senior dedicated staff for programs and diverse revenue streams and thus time and space for longer term strategic planning and thought.

## Methodology

For the analysis through the lens of size, the original data set that was collected by Mowat NFP was used. This was a wide-spread survey of Executive Directors in the nonprofit sector across Ontario, which resulted in 1,450 questionnaires and was further filtered to 810 fully completed responses.<sup>10</sup>

In order to dig into the size factor, for both the variables of number of employees and budget size, we isolated these two questions<sup>11</sup> within the original data set and the relationship to these was explored using regression analysis. The questions isolated in the analysis were intentional succession planning (Q30), whether there was a qualified candidate at the organization who could take on the Executive Director role (Q39a) and whether the individual was interested in the job, whether high performers are deliberately identified within the organization (Q25) and how many leadership opportunities are provided for high performers (Q26).

## Size by number of employees

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<sup>7</sup> This study looked at organizations specifically in England and Wales.

<sup>8</sup> Cornforth, Chris and Claire Simpson. “Change and Continuity in the Governance of Nonprofit Organizations in the United Kingdom: The Impact of Organizational Size.” *Nonprofit Management & Leadership*, Volume 12, Number 4 (Summer 2002): p.466.

<sup>9</sup> Cornelius, Marla, et al. 2011. *Daring to Lead 2011: A National Study of Nonprofit Executive Leadership*. San Francisco: CompassPoint Nonprofit Services and the Meyer Foundation, p.4.

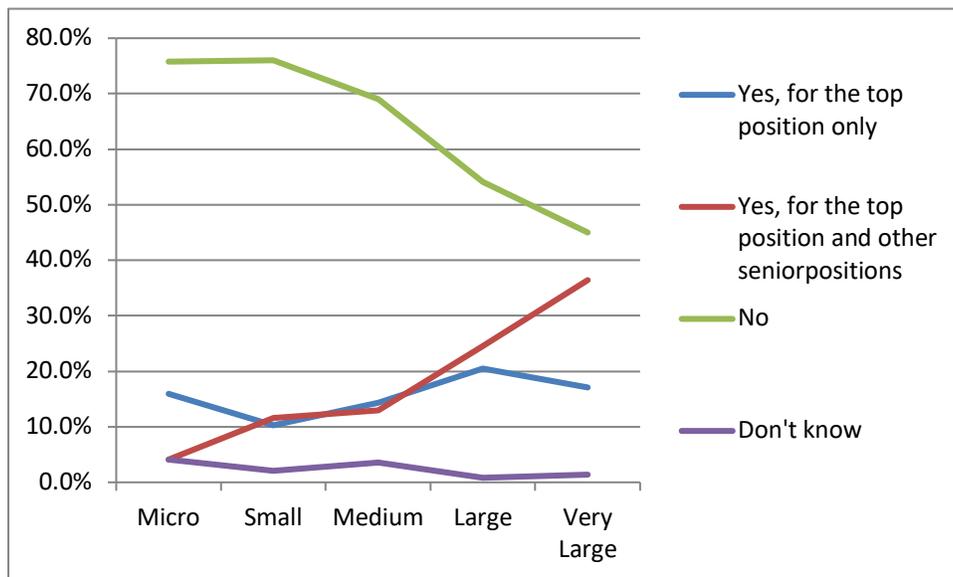
<sup>10</sup> The original sample was filtered by Mowat NFP for responses of organizations not located in Ontario, not having at least one employee and not within the targeted sub-sectors. For a detailed explanation of the methodology of data collection, please see p.7 *Shaping the Future*.

<sup>11</sup> This was Question 12a for number of employees and Question 10 for budget size.

The first element that was tested through the size lens is succession planning. As a benchmark, overall in the study of all respondents in Ontario, two thirds of respondents had no succession plan at all.<sup>12</sup> Moreover, 63% of all respondents do not identify high performers in their organizations.<sup>13</sup> Of the 48% of organizations that have a staff/board member who would be qualified to take the job, 27% were definitely not interested.

At the Medium size (11-20 employees) of organization and above, especially Large and Extra Large organizations more likely to have a succession plan. If they have one, then it is more likely to be focused on both top person and other senior positions.

**Size of organization and succession planning**

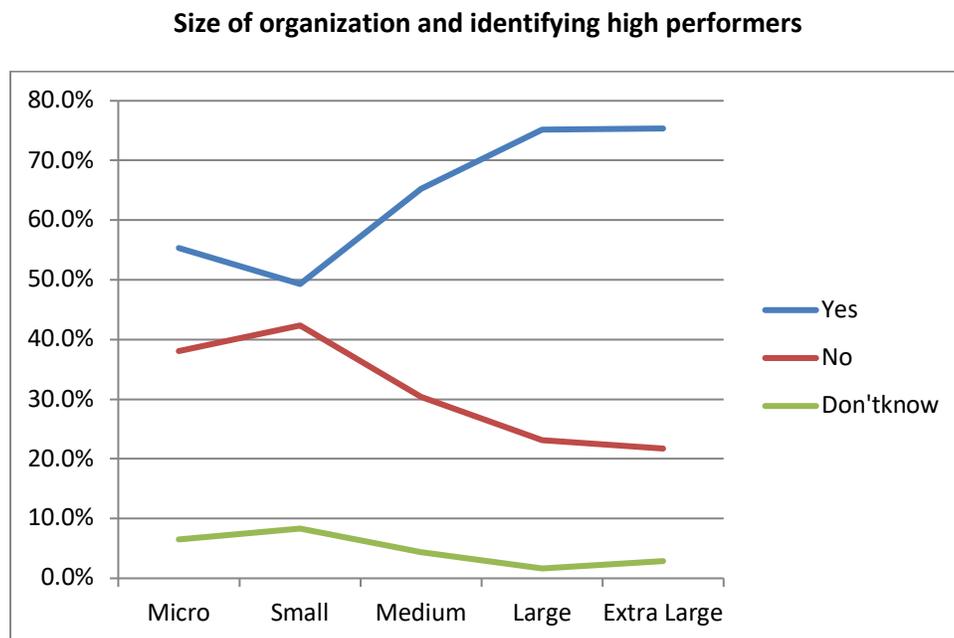


Q30: Does your organization have a formal succession plan for senior leadership?

<sup>12</sup> *Shaping the Future*, p.48.

<sup>13</sup> *Shaping the Future*, p. 52.

The next question was around whether the organization deliberately identifies high performers. The reason this question is important is that it is the starting point of the internal pipeline. If high performers are deliberately identified (potentially even from the stages of hiring), the organization is more likely to, down the line, have people that are ready to step into the head role. What we found through this lens is that the larger the organization, the more likely they are to deliberately identify high performers, increasing right from Small size and levelling off at Very Large. Essentially, this is confirming that the organizations with more than 10 employees are most likely to identify high performers within the organization.

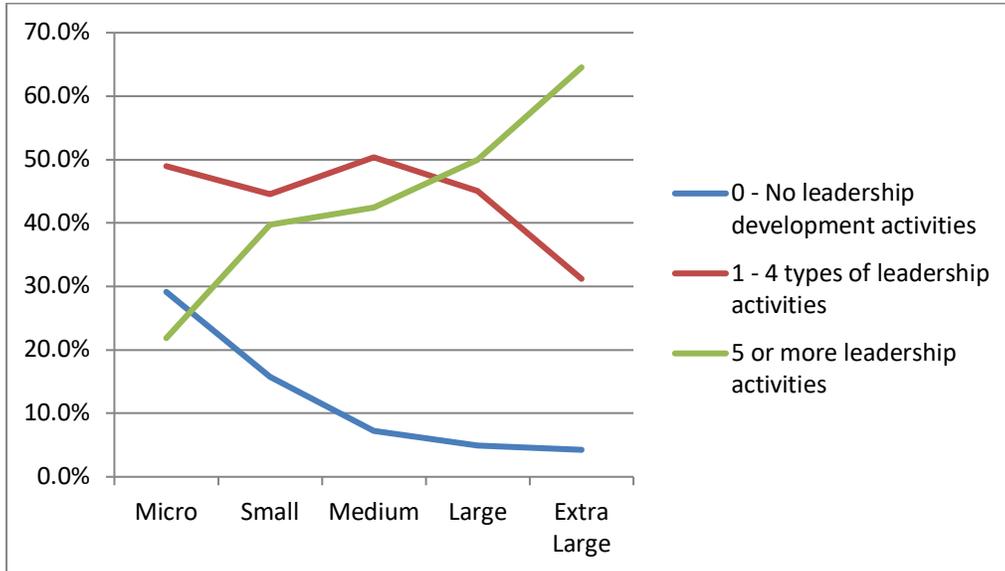


Q25: Does your organization deliberately identify “high performing” employees?

If there are high performers identified, the next question is whether the same organizations are also offering leadership opportunities for these high performers. When we tested this question<sup>14</sup> through the size lens, we found that once organizations go from Medium to Large size, they are more likely to provide 5 or more leadership opportunities for high performers.

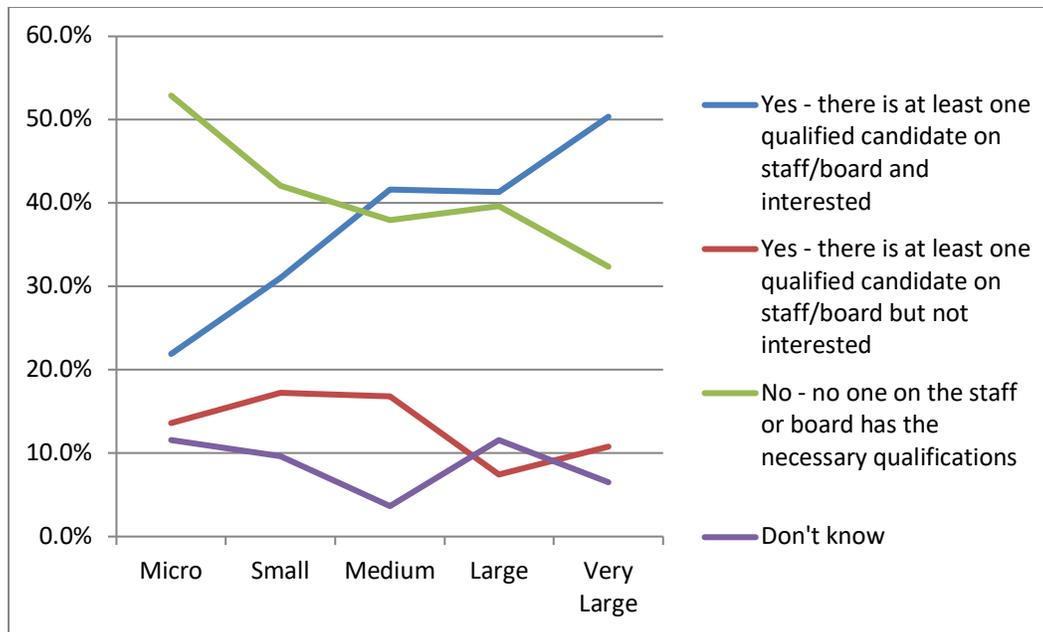
<sup>14</sup> \*re-coded into the following categories: 0, 1-4, 5-8 and 9 and more (ANOVA test was run as well)

### Size of organizations and development opportunities for high performers



Now that we know that organizations with more than 10 employees are more likely to identify high performers within the organization and those with more than 20 employees are also more likely to offer a higher number of development activities, the next question is whether these organizations also confirm that there is a qualified candidate within the organization that could step into the leadership role one day. What we found in this arena is that the larger the organization, the more likely they are to have a qualified candidate.

### Size of organization and having a qualified candidate



Organizations at the Very Large size (over 50 employees) are likely to have a candidate who is also interested in the role. This could be a function of sheer volume, or the fact that the more employees there are in an organization, the more likely there are to be dedicated people for dedicated functions.

If we consider that “without visibility into the executive job, it is difficult for even high potential leaders to prepare to step into the executive role,”<sup>15</sup> and that we know that there are a large number of people who even if they could take the job, would not want it. The two need to go hand in hand – if there is not a lot of one-on-one development time, then there is less likely to be a chance for the person to see what is possible. In a small organization, even if there is a lot of one-on-one time with the Executive Director, if none of that time is development time, the person would only see what is on the outside and conclude that the role is not for them. Once again, size matters.

### Size by budget

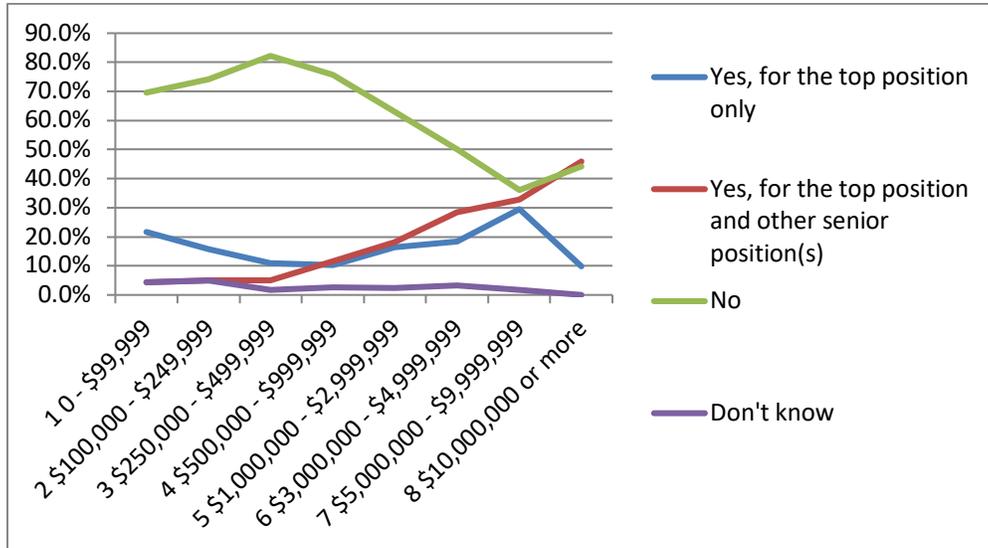
When we took the lens of organizational budget size to the data, the overall trend told a slightly different story. Consistently and across the board with all the questions that we tested in the areas of successions planning and beyond, pointed to the fact that there is a true “tipping point” when it comes to whether an organization is forward thinking and planning – that critical number is \$3.5 million.

This trend was first illustrated with the succession planning question itself. The data showed a clear relationship between the increase in an organizations’ conscious succession planning and the level of its organizational budget. The \$3.5 million mark is the crossroad; organizations with this budget and higher

<sup>15</sup> Daring to Lead, p.5.

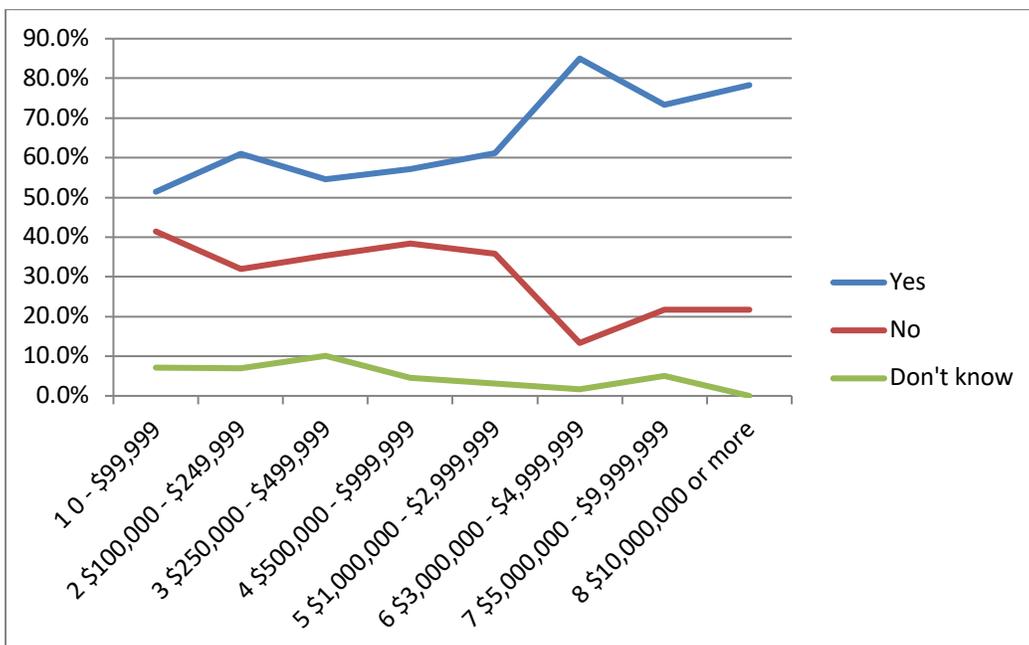
are more likely to have a succession plan for top position and other senior positions. This trend peaks at the \$7.5 million mark and levels off after that.

**Budget size and succession planning**



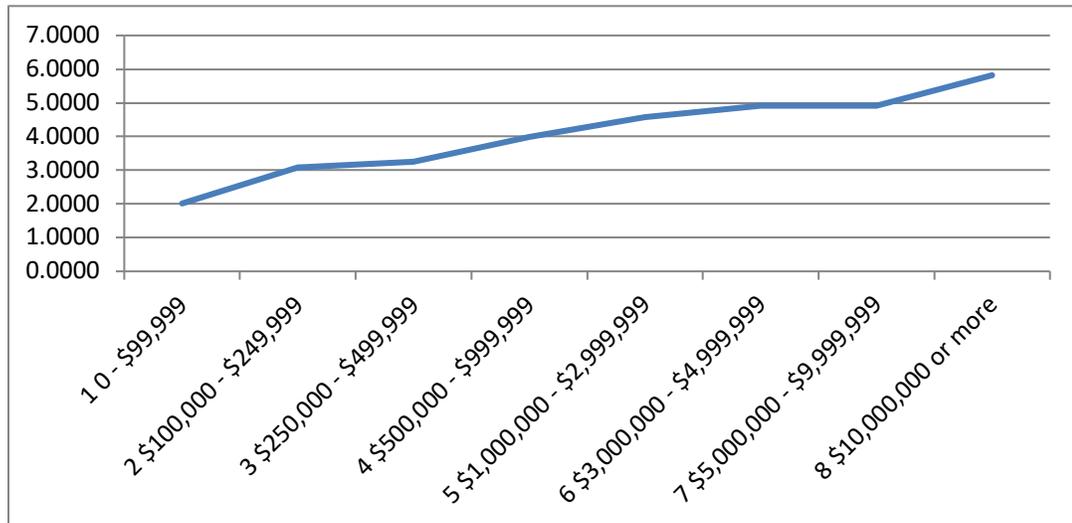
We see the same trend again when we look at identifying high performers. The relationship evident in the data is that the propensity of an organization to identify high performers increases budget size increases, with \$3.5 million being the crossroad once again. Organizations with at least this level of budget are more likely to identify high performers. This trend peaks at about the \$7.5 million mark.

**Budget size and identifying high performers**



When it comes to providing professional development opportunities, we found that the larger the organizational budget, the more professional development opportunities are offered.<sup>16</sup> This is an encouraging trend and one that points to a desire within the sector to offer these opportunities and the bandwidth to do so once the resources are available.

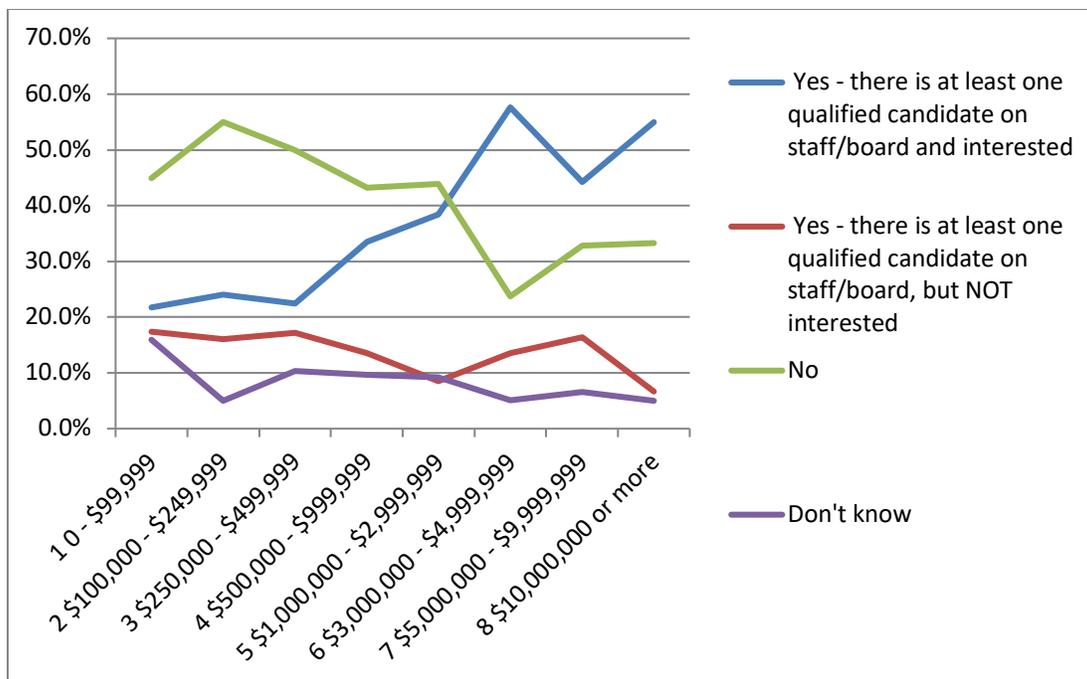
**Budget size and development opportunities for high performers**



When it comes to the question of identifying a qualified candidate who can take on the Executive Director job, the likelihood for this increases as budget increases, with \$3.5 million being the critical point again. Organizations with this budget and higher are more likely to have a qualified candidate who is also interested in the role.

**Budget size and having a qualified candidate**

<sup>16</sup> re-coded into the following categories: 0, 1-4, 5-8 and 9 and more



### Implications and future considerations

When the *Shaping the Future: Leadership in Ontario's Nonprofit Labour Force* was first released, it prompted a large wave of questions from the sector about whether the trends found were really true across the board, especially with organizations that were larger or smaller than the average. This study has proven that size is, indeed, an important part of the puzzle in that resource capacity matters when it comes to a certain kind of leadership planning and organizations that are above a certain size as far as employees feel a greater need for formal succession planning as well.

If most nonprofit organizations in Ontario have a budget of \$1 million or less and the tipping point for organizations having the resources to focus on human capital matters is at the \$3.5 million mark, then how can the sector help itself? More than 77% of organizations currently have an organizational budget below the \$3 million mark.<sup>17</sup> Maybe we need to be more realistic about our expectations of ourselves. Perhaps we need to hold organizations above a certain budget level to a higher standard. This is common in the for-profit sector – where there are different expectations of organizations that are of a certain size – how can we make it relevant for ours? Overall, it is important to note that context matters and not all organizations should be treated or evaluated in the same way.

All organizations, regardless of size, do need to be conscious and realistic about the resources they have – balancing current needs with setting up for a sustainable future. Just because human capital planning has taken a backseat in the sector as a whole up until now does not mean that it has to continue to be that way. In the same vein, it may be time for forward-thinking funders to consider how the \$3.5 million

<sup>17</sup> *Shaping the Future*, p. 13.

threshold factors into the types of organizational development grants that are provided to organizations with the leadership development pipeline in mind. It is also important to ask how policy makers can support organizations to get to this brink, or, ideally, beyond it.

Size is an important part of the puzzle, but it is still only part of the equation. There are a number of additional factors that may determine the way organizations plan for the future. For example, one element to consider is that organizations that are founder-run have distinct features.<sup>18</sup> Though only eight percent of organizations were founder-run in this particular sample, we did find that founder-run organizations were more likely to be smaller and in the growth stage, even if they were older in terms of number of years in existence. Though size is a factor, the barriers to succession planning are not always about resources. Sometimes it is more about the prevailing attitudes that exist, or have existed, within the organization for some time.

It is time to shake off past assumptions and step into a future of sustainable growth. Looking to the past and thinking small will not get us any further.

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## Resource List

Cornelius, Marla, et al. 2011. *Daring to Lead 2011: A National Study of Nonprofit Executive Leadership*. San Francisco: CompassPoint Nonprofit Services and the Meyer Foundation.

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<sup>18</sup> Kleibrink, Maryll. 2004. *Diagnosis: Founderitis*. Washington: The Centre for Association Leadership.

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