

Coping with Change: Human Resource Management in Canada's Non-profit Sector

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Executive Summary

Interest in the non-profit sector has surged in recent years, along with recognition of the contributions of the sector, socially, culturally, and economically. But, while we have begun to learn more about volunteers and charitable giving,¹ relatively little is known about how the sector, and organizations within it, are organized. In particular, there has been a notable absence of information about paid employees and human resource issues in the sector.

Statistics Canada's Workplace and Employee Survey (WES) provides data, never before available, on non-profit organizations and the paid workers they employ. Drawing on the 1999 WES, Canadian Policy Research Networks examines a range of human resource issues in the non-profit sector in a series of five reports. This is the fourth in that series.

This report reviews the recent literature on the impacts of external change on non-profit organizations, drawing out the implications for organizational strategies and human resource management practices. We build on that work by using the WES to provide quantitative estimates of the magnitude of change in the Canadian non-profit sector and compare the non-profit sector to other sectors in the economy in its use of a variety of human resource management practices.

Using data on non-profit status and industry classifications, we classify employers and employees into three sectors, which are further divided into subsectors:

The 1999 Workplace and Employee Survey (WES)

For the purposes of our analysis of the non-profit sector in Canada, the following key features of the WES are worth noting:

- Data were collected from a nationally representative sample of workplaces and paid employees in those workplaces;
- The WES includes only workplaces that have at least one paid employee; it does not include workplaces run entirely by volunteers, nor does it include volunteers who work alongside of paid workers;
- The WES excludes religious organizations and establishments in government, some primary industries, and the Territories.

¹ See Statistics Canada, *National Survey of Volunteering, Giving and Participating*.

- *For-profit*;
- *Quango* (non-profit organizations in ‘quasi-public’ industries, including elementary/secondary schools, colleges/universities, hospitals, and public infrastructure);
- *Non-profit* (culture, recreation and associations; health, education and social services; and ‘other non-profit’ industries).

Lessons from the Literature

Expert observers identify a number of common challenges, especially those relating to changes in the funding environment; decreasing availability of skilled and committed volunteers; increasing workloads; rising skill requirements; insufficient and short-term funding; constraints on organizations’ ability to develop long-range strategic plans; and issues with respect to recruitment and retention. Organizational impacts include changes in the services that are provided; in accountability reporting; in organizational structures, processes, and governance; in hiring practices; and in clients served.

The non-profit sector is human resource intensive; indeed, human capital is viewed as being the “greatest strength” of non-profit organizations. A review of the literature on how changes in the operating environment are affecting the non-profit sector shows that nearly all of those changes have major impacts on the individuals who work in the sector. The success of human resource policies will therefore have an important bearing on how well the sector will meet the challenges it faces.

Over the past couple of decades, a body of literature has developed that addresses issues around human resource management and its role in organizational performance. That literature arose in part out of a recognition that rising educational and skills levels in the labour force require new approaches to human resource management and in part out of the recognition that the world in which organizations operate has become increasingly complex. Nowhere does that apply better than to the non-profit sector.

High performance human resource management systems embrace flatter organizational management hierarchies, information-sharing, participation in decision making, provision of training opportunities, and flexible work arrangements. The evidence suggests that adoption of such practices has positive effects on employees (greater satisfaction, commitment, motivation, effort, and performance, and less absenteeism) which in turn positively affect firm performance, productivity, and competitiveness.

Research Findings

By identifying non-profit organizations as such for the first time in a broad national survey of this type, the WES makes a valuable contribution to knowledge about the sector. However, most organizations included in the WES are in the for-profit sector and the business perspective taken by the 1999 WES is still very much based on a for-profit

model. As a result, many of the unique circumstances faced by non-profit organizations cannot be addressed by our analysis and some of the business concepts included do not apply easily to the non-profit sector. Efforts should be made to include elements that more closely reflect the realities of the non-profit sector in future surveys like the WES. A case can also be made for development of research models and surveys that focus only on the non-profit sector in order to identify and measure in more detail the nature of the challenges faced by the sector and effective strategies for dealing with those challenges.

Organizational Change

Despite some very fundamental differences in the nature of non-profit and for-profit organizations, and to a lesser extent, organizations in the quango sector, differences in the business strategies they used were not strikingly large. Organizations in all three sectors placed a strong emphasis on increasing employee skills, on improving the quality of the products they produce and the services they provide, and on increasing employee involvement and participation.

Employers in the non-profit sector were less likely than other employers to report organizational change in the 1998-99 period. Yet, when such changes were introduced, the objectives were to reduce costs, increase product/service quality, and raise productivity. Indeed, the most frequently reported impact of organizational change was an increase in product/service quality and an increase in productivity.

Other organizational impacts (reported by one quarter or more of employers in the non-profit sector) included improvements in the quality of the labour-management relationship; increases in product/service differentiation; and increases in the ability to measure performance.

Human Resource Management Practices

Many organizations in the non-profit sector are not in a position to independently generate the funds needed to support their work. That places them in a precarious financial position and means that often pay levels and job security are low. This focuses the spotlight more intensely on the quality of human resource management and employment relationships.

Decision Making

The data suggest that for-profit organizations tend to be governed by a strongly hierarchical, top-down management model. In contrast, a model of shared decision making is more likely to be found in non-profit organizations, with individual workers, work groups and supervisors being given greater responsibility for day-to-day decisions.

This less hierarchical model of work organization is what the literature would predict for workplaces consisting of high percentages of highly educated and skilled professionals.

However, a relatively high percentage of employers in the non-profit sector reported that that an individual or group *outside* the workplace normally made decisions with respect to a number of activities, especially with respect to staffing levels, decisions regarding the filling of vacancies, and product/service development. Senior managers face constraints on the extent to which they have control over a number of decisions, especially regarding resourcing.

Personal and Family Supports

Despite similarities in the size composition of workplaces in the non-profit and for-profit sectors, provision of personal and family supports by the employer was more likely to be reported by employers in the non-profit sector (38 percent of employees) than in the for-profit sector (25 percent of employees).

Union Membership and Coverage by a Collective Agreement

Union membership and coverage by a collective agreement is related to establishment size and the occupational composition of employment. Employers in the quango sector were most likely to report that their employees were covered by a collective agreement – 43 percent in the case of technical/trades workers; 40 percent for clerical/administrative workers; and 33 percent in the case of professionals. Coverage by a collective agreement was much less likely to be reported by employers in the other two sectors.

The picture changes a great deal when looked at from the perspective of employees – 40 percent of employees in the non-profit sector reported that they were union members or that they were covered by a collective agreement, compared to 19 percent of employees in the for-profit sector and 75 percent of those in the quango sector.

While more research is needed, it is likely that the relatively high rate of unionization in the for-profit sector reflects the concentration of employees in the non-profit health, education and social services sector in larger establishments, and the fact that a relatively large share of employment in the non-profit sector is in professional occupations, where collective agreement coverage is more likely

Similarly, the percentage of employees in the non-profit sector who were covered by a dispute resolution mechanism was lower than in the quango sector, but higher than in the for-profit sector.

Conclusion

Surveys, like the WES, should be designed to be more inclusive of the non-profit sector by including questions that are more reflective of the differences in operating environments and business strategies across sectors.

Despite the many characteristics that set non-profit organizations apart from organizations in other sectors, there are strong similarities in the strategies they are adopting to cope with complex change. These include having an emphasis on skill development, improving service quality, and developing performance measurement tools.

On balance, from a human resource management perspective, the non-profit sector may well have lessons to offer to other sectors. Small organizations with a philosophy of shared decision making, individual control over work, and based on a foundation of mutual trust and respect offer employees positive employment relationships that can act as strong recruitment and retention tools. Many non-profit organizations have these qualities. This is a comparative advantage that many non-profit organizations would do well to build upon – and to be cautious to preserve, especially when their ability to offer large extrinsic rewards in the form of high salaries or long-term permanent jobs is constrained by the environment in which they operate.