

Earned Income Framework

Mainstreaming the key concepts for charities and nonprofits

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How did this earned income framework come about?

This framework is a direct result of the [National Engagement Strategy](#) that, to date, has involved more than 1500 leaders from charities and nonprofits across the country. Between 2009 and 2012, [Imagine Canada](#), in partnership with national, provincial and local organizations, convened sector leaders to discuss the cross-cutting [drivers of change](#) that would affect how organizations attract the investments required to fulfill their mission and how they maximize their impact in communities at home and around the world. [Community conversations](#) in 2009 and [provincial and territorial events](#) in 2010, led to a [National Summit](#) in November 2011 where emerging and established leaders worked on four [Priorities for Action](#).

One of these Priorities for Action, *Diversified and Sustainable Financing of the Sector*, has four streams of follow-up work: philanthropy, grants and contributions, earned income, and financial literacy. The work on earned income is spurred by widespread recognition that even as philanthropy and grants and contributions continue to be important sources of financing for many organizations, increasingly, charities and nonprofits are looking to earned income to diversify and supplement their revenue streams. We define earned income as the sale of products, services, processes, expertise and intellectual property for monetary return.^{1,2}

Imagine Canada believes that the conversation about earned income needs to be made more accessible for the vast majority of charity and nonprofit leaders and that we need to be thinking of earned income and its related concepts and components in a much more integrated way.

In encouraging and supporting the pursuit of earned income activities, Imagine Canada is in no way suggesting that governments should be absolved of their responsibilities to fund appropriately services and programs that charities and nonprofits deliver on their behalf. Grants and contributions programs and individual and corporate philanthropy will continue to be important sources of financing for many organizations across the country. Given the current fiscal constraints and the desire for greater independence of action, however, more organizations are looking to earned income as a means to supplement or diversify their revenue base to fulfill their mission and maximize their impact.

¹ Commercial activity by charities or nonprofits is often referred to as “social enterprise”. However, it is important to note that social enterprise comprises only one aspect of earned income and should be considered along with other business-like revenue generating activities in the sector. We have chosen to use the term “earned income” throughout the document to capture this range of activity.

² Further research from Imagine Canada’s *Sector Monitor* relating to earned income activities among Canadian charities is forthcoming later this year.

How and why do charities and nonprofits engage in earned income activities?

While the scale, scope, and range of possible earned income engagement vary greatly across the sector, for the vast majority of organizations, earned income is far from a new phenomenon. Many organizations have long relied on fee-for-service arrangements; membership fees; sales of publications; performances and events; and or related businesses to help them fulfill their missions. In some organizations, the earned income activity may be completely integrated with the mission of the charity or nonprofit. For example, some charities operate thrift stores or cafes in order to employ marginalized workers. In other organizations, earned income activities may be a natural outflow of excess capacity, such as hospitals that operate parking lots or gifts shops or organizations that offer consulting services related to their expertise. For others still, earned income activities can be the development and sale of a product or service, such as cookies, calendars, or access to exercise facilities. However, for some organizations, the need to consider and engage in earned income is a relatively recent reality.

No matter how deep an organization's previous engagement in earned income activities, charities and nonprofits are driven to explore earned income opportunities either more fully or for the first time for a variety of reasons. For some, interest in earned income activities is sparked by the identification of a niche business or income opportunity based on the organization's particular area of expertise. For others, earned income is a way to free their organizations from short-term project and funding cycles. For others still, earned income activities are a way to combat constraints in philanthropic support or government funding. Whatever the motivation, earned income activities, when properly pursued, provide opportunities to create spaces for experimentation and innovation, to forge paths toward greater independence and long-term sustainability, and to further enhance the organizational mission and impact.

Why should the framework be of interest to charities and nonprofits and our partners in government and business?

No matter where your organization may fall in the spectrum of earned income activities, we trust that you will find something of value in this framework to inform your earned income efforts. This framework is meant to be a high level guide to assist charities and nonprofits to think about earned income as a means to diversify and enhance the financing of their organization and thereby heighten their impact. In sharing this framework, Imagine Canada hopes to mainstream some of the key concepts related to earned income and provide an accessible and integrated way for organizations to talk about and consider the applicability of this stream of financing for their work. While this guide is not intended to be a *how to* guide, we also share links to resources that will help organizations to move from thinking about earned income, to more effectively engaging in these activities should they wish to do so.

There is strong interest from various levels of government and the private sector in exploring new means of working together with charities and nonprofits to address some of the seemingly intractable social, economic, cultural, and environmental issues facing communities across the country and

around the world. This framework is intended to guide and inform some of these efforts. It may help key partners to think more holistically about the fundamental components that need to be in place to enable charities and nonprofits to engage in new financing models and new forms of collaboration. It is also intended to remind other sectors of the importance of financial sustainability for charities and nonprofits so that we can be effective and reliable long-term partners. In reviewing this framework, partners in government and business are encouraged to think about how they can best contribute to creating and maintaining an enabling environment for charities and nonprofits as this is a prerequisite to successful cross-sectoral partnerships.

Why do we need to think in an integrated way about earned income?

In our conversations with government, business, and charities and nonprofits, we have been struck by the extent to which many of us have been talking about earned income devoid of any broader frame of reference of how the pieces fit together. Our collective conversations tend to focus on *a* particular mechanism for accessing capital (such as the Social Impact Bond) or on *one* particular means of benchmarking and determining impact assessment (such as the Social Return on Investment model). While these conversations are important, we need to be thinking of earned income and its related concepts and components in a much more integrated way.

To illustrate this point, how successful can an organization's earned income efforts be if the sector has access to the right capital at the right time, but does not have access to the right talent, be it internal staff and volunteers or external expertise, to capitalize on this opportunity? Similarly, even if the market demand is there for products and services provided by the sector and there is a willingness on the part of government or business to partner to achieve societal improvements, what good will this be if the legislative environment governing charities and nonprofits is not an enabling one? Assessing or pursuing earned income activities in isolation without taking into account the broader context will not serve anyone well in the end, if the goal is to create sustainable organizations capable of partnering with other sectors to achieve maximum impact.

What are the four fundamental pillars of this framework?

As we mentioned earlier, earned income is not a new concept for most charities and nonprofits. In fact, the most recently available Statistics Canada data indicates that earned income activities are responsible for 40% percent of all revenues flowing to the sector in 2008, when membership fees are included in the equation. For the charitable and nonprofit sector to build on the assets that it has already developed in pursuing earned income activities, Imagine Canada suggests that sector leaders and their partners in government and business, need to ensure that the following four fundamental pillars are considered when undertaking any new earned income initiative. These pillars are 1) Financial Capital; 2) Human Capital; 3) Market Demand; and 4) Regulatory Environment. These pillars, along with a brief description of their intended outcomes, are presented below.



Figure 1: Framework for Earned Income

Together, these four pillars are the key components that, ideally, mutually reinforce each other to create an enabling environment for earned income opportunities within an organization. While deficiencies in any component can compromise the ability of an organization to integrate earned income opportunities into its revenue base, organizations should not be discouraged from engaging in these activities altogether because the environment is not “perfect”. Rather, it is important for organizations to understand and consider the opportunities and constraints that are present within each area so that they can adjust their strategy accordingly.

1. Financial Capital

Financial capital refers to the financial resources that organizations require for starting, maintaining, or expanding earned income opportunities. It includes the resources that may be used for major capital investments, such as buildings and infrastructure, start-up capital for new initiatives and projects, and working capital for financing daily operations. These resources include financial products across the spectrum such as grants, loans, and investments and can come from many sources including traditional banks, credit unions, foundations, and private investors. Capital also includes new and emerging models such as Social Impact Bonds in which non-traditional financiers are becoming contract partners along with government and the sector in funding and fee-for-service arrangements. The type, amount, and function of the capital will depend on the particular needs of the organization and will vary throughout its life. Finding the right type of capital for the right use can be challenging at times, but without appropriate capital it is unlikely that the earned income opportunity will thrive.

The table below lists a small sampling of organizations that are working to educate charities and nonprofits on the types of capital that exist as well as to improve organizations' overall access to capital so that they can successfully pursue earned income opportunities.³

Organization	Type	Website
Alterna Bank	Lender	alterna.ca/AlternaSavings/AboutUs/Community/EconomicDevelopment
Arctic Co-operative Development Fund	Lender	arcticco-op.com
Canadian Alternative Investment Co-operative	Lender	caic.ca
Community Forward Fund	Lender	communityforwardfund.ca
Desjardins Caisse d'économie solidaire	Lender	http://www.caissesolidaire.coop/
Fiducie du Chantier de l'Économie Sociale	Lender	fiducieduchantier.qc.ca
Jubilee Fund	Lender	jubileefund.ca
Ottawa Community Loan Fund	Lender	oclf.org
resilient capital	Lender	resilientcapital.ca
Royal Bank of Canada	Lender	rbc.com/community-sustainability/rbc-social-finance-initiative/index.html
Social Enterprise Fund – Edmonton	Lender	socialenterprisefund.ca
Toronto Enterprise Fund	Lender	http://www.torontoenterprisefund.ca/
Vancity	Lender	vancity.com
Purpose Capital	Lender/ Research	purposecap.com
Carleton Centre for Community Innovation	Research	www3.carleton.ca/3ci
Deloitte	Research	deloitte.com/view/en_CA/ca/insights/insights-and-issues/bb0a3f1c1a056310VgnVCM3000001c56f00aRCRD.htm
MaRS Centre for Impact Investing	Research/ Support	http://impactinvesting.marsdd.com/socialfinance.ca
Community Foundations of Canada	Support	cfc-fcc.ca
Enterprising Nonprofits	Support	enterprisingnonprofits.ca
Philanthropic Foundations of Canada	Support	pfc.ca

³ Note: The resource tables included in this document are not meant to be comprehensive. Please let us know if there are important resources missing from these lists and we will be happy to add them.

2. Human Capital

As would be the case with any business opportunity, a continuum of talent with a wide range of skills is required to start, maintain, and grow earned income opportunities within charities and nonprofits. Organizations need to have access to the right business skills, such as business plan development, product or service development, sales, and marketing. They also need the right management skills to provide the leadership and communications to ensure that the wide array of key stakeholders (e.g. boards of directors, other volunteers, staff, donors, and the public) remains supportive of and engaged in the effort.⁴

An organization may be able to train existing staff in the skills required to start, maintain, or grow an earned income opportunity. Alternatively, an organization may have to hire new talent or access it externally through highly-skilled volunteers or through federal or provincial programs similar to those that provide support for small and medium sized enterprises. It is important to note that acquiring the right people and right skills also means being able to retain them to ensure the sustainability of the effort. Organizations need to give serious thought to their talent attraction and retention strategies, including their ability to offer competitive compensation, benefits, and growth opportunities to paid staff and rewarding volunteer experiences to their highly skilled external talent.

The table below lists a sample of the organizations working to help charities and nonprofits gain and retain access to the right people and the right skills.

Organization	Type	Website
PricewaterhouseCoopers	Support	http://www.pwc.com/ca/en/foundation/resources-publications.jhtml
Canadian CED Network	Support	http://ccednet-rcdec.ca/en
Community Futures Network of Canada	Support	communityfuturescanada.ca
Enterprising Nonprofits	Support	enterprisingnonprofits.ca/resources
HR Council for the Nonprofit Sector (Community Foundations of Canada)	Support	hrcouncil.ca/home.cfm
Innoweave	Support	http://www.innoweave.ca
The Centre for Innovative Social Enterprise Development	Support	cised.ca
Vantage Point	Support	thevantagepoint.ca
Volunteer Canada	Support	volunteercanada.ca

3. Market Demand

In order for earned income to become a successful source of revenue for an organization, adequate market demand must exist or be created for its products and services. One cannot sell

⁴ Imagine Canada is working in partnership with the federal government to improve the accessibility of programs and services offered through the [Canada Business Network](#) to charities and nonprofits.

a product or a service without a buyer, and finding a buyer may not be as easy as one thinks. The customers for an organization's products or services are not necessarily the same as its donors, funders, or even clients. In some cases, a ready customer market may not even be established. Thus, an organization seeking to engage in earned income opportunities will often need to research and develop its markets.

This may mean that the organization will have to conduct thorough market research to understand their competitors and their environment as well as develop and execute a new marketing plan to advertise the sale of its goods and/or services. It may entail seeking out new segments of the population that the organization has not previously targeted through its fundraising campaigns. In many cases, developing market demand will require new financial and human resources and new ways of thinking about an organization's offerings.

The table below lists a few organizations working to stimulate market demand or to support organizations seeking to create or assess market demand.

Organization	Type	Website
Enterprising Nonprofits	Support	enterprisingnonprofits.ca/e-library-resources/social-enterprise-purchasing-toolkit
Social Enterprise Council of Canada	Support	secouncil.ca/en/expanding-markets/expanding-markets
Winnipeg Social Purchasing Portal	Support	sppwinnipeg.org

4. Regulatory Environment

The regulatory environment provides the operating context for charities and nonprofits to legally engage in earned income activities and will affect how an organization structures its earned income opportunity. It is important that charities and nonprofits have a detailed understanding of the regulations that govern them, whether federal, provincial, or territorial. While many provincial governments are changing regulations and legislation to enable earned income activity, it is also important that charities and nonprofits recognize that they remain subject to federal government regulations and requirements as defined by the Income Tax Act and administered by the Canada Revenue Agency.

Since charities and nonprofits are treated differently within the Income Tax Act, there are different regulatory requirements, which apply to each. These regulations govern how profits are treated and taxed by the Canada Revenue Agency. For example, a charity will need to assess whether the earned income opportunity is a related or an unrelated business. The Income Tax Act only allows charities to pursue profits through related businesses. Moreover, even if the enterprise is deemed a related business, charities must ensure that this related business does not

represent an inordinate amount of its resources, thus jeopardizing the organization’s charitable status.⁵

Nonprofits, on the other hand, have no restrictions on the type of earned income activity they can pursue. However, they are prevented from generating a profit, even if this profit is intended to support the mission of the organization. As such, some would argue that there is more freedom to engage in earned income activities, if the organization has charitable status.

In addition to the treatment of profits, the regulatory environment will also affect the type of financing that can be used, incorporation guidelines, and reporting requirements. The regulatory environment can seem complex and overwhelming but much work has already been done to help charities and nonprofits address many of these considerations as they relate to earned income. The table below lists a sample of the organizations that are currently working in the regulatory environment area.

Organization	Type	Website
Canadian Charity Law (Mark Blumberg)	Legal commentary/support	canadiancharitylaw.ca
Carters Barristers, Solicitors, Trademark Agents	Legal commentary/support	carters.ca/charity/index.php
Miller Thomson Lawyers	Legal commentary/support	millerthomson.com/en/our-services/charities-and-not-for-profit
The Canadian Bar Association	Legal support	cba.org/cba/sections_Charities/main
Canada Revenue Agency	Regulator	Charities: cra-arc.gc.ca/chrts-gvng/chrts/menu-eng.html Nonprofits: cra-arc.gc.ca/tx/nnprft/menu-eng.html
BC Centre for Social Enterprise	Research	Centreforsocialenterprise.com
Mowat NFP	Research	http://www.mowatcentre.ca/pages.php?pageID=14
SiG (social innovation generation)	Research	http://www.sigeneration.ca/

What else do organizations need to consider?

Even where the four foundational pillars are in place, organizations will need to think through a number of crosscutting issues related to their earned income activity. These are not issues where there is necessarily an easy checklist or a single way of acting or thinking. They are, however, issues

⁵ The Canada Revenue Agency has published guidance detailing the key considerations that govern charities’ involvement in related businesses (see [CPS-019](#)) as well as recently released important guidance on charities’ involvement in community economic development activities (see [CPS-014](#)).

that need to be carefully considered and to which an organization and its governing board must be prepared to speak.

1. Mission enhancement or mission drift

There is a risk that developing business activities could lead to mission drift – that is, an organization’s focus could shift from carrying out its charitable or public benefit mission to ensuring the success of its earned income ventures. On the other hand, enhanced earned income could allow an organization *more* leeway to focus on its mission if it provides more financial sustainability and independence of action. Indeed, there could be *less* mission drift than when an organization is forced to constantly adapt its focus and its programs to suit the demands of funders.⁶ Organizations and their boards bear the primary responsibility for ensuring that there is no mission drift and will need to think through questions that include, but are not limited to:

- What criteria will we use to assess the alignment between our proposed or actual earned income activities and our mission?
- How much money is needed from earned income activities in order to better fulfill our mission?
- How would surplus funds from new earned income activities be used?
- How will decisions on expanding or wrapping up existing earned income activities be made?

2. Financial and reputational risk assessment

An organization’s established reputation – its mission, its history, its perceived effectiveness — can be a significant asset in building earned income activities. The goodwill it enjoys in the community can be a marketing advantage. However, risk is inherent when venturing into any new realm of activity.

According to Statistics Canada, some 30 percent of new small businesses fail within five years; for businesses with revenues below \$30,000 the failure rate is 65 percent. Similarly, many earned income ventures will meet with failure rather than success, but organizations that identify, manage, and mitigate financial risks will minimize potential risks to their reputation. Even failures, if lessons are identified and shared, can inform future successes and lead to positive outcomes down the road.

Organizations and their boards looking to mitigate risk should consider questions such as:

- What level of financial risk and exposure can our organization tolerate?
- Where there is a partnership model, are the risks fully understood and appropriately shared?
- Have different types of risk (such as management capacity or changing technology) been identified and addressed?
- Have risks been communicated to all stakeholders?
- Are there mechanisms in place to identify when things are not going as planned and to take corrective actions?

⁶ For more information on mission drift, please see the following link to an article that Imagine Canada has written on the topic: <http://blog.imaginecanada.ca/tag/mission-drift/>

3. Change management and organizational readiness

Engaging in earned income opportunities either for the first time or more extensively will entail a certain amount of organizational change that will be felt by all stakeholders. Organizations will need to ensure that they bring all stakeholders along throughout the change, helping them to adapt and respond to the new considerations that engaging in earned income may entail. In addition, senior staff and board members should consider whether the timing is right to engage in earned income activities. While a funding crisis may provide a necessary impetus to seek out new sources of revenue, organizations will need to ensure they have sufficient financial and human resources to invest in and support the activity. Ideally, earned income opportunities are best pursued when organizations already have a strong financial base on which to build and the right human capital in place to guide and manage the endeavour.

Organizations should consider questions such as:

- How do we assess the potential implications of new earned income activities on our organizational culture?
- How do we engage staff, board members, and volunteers in developing earned income activities and any necessary new structures?
- How do we explain our activities and provide reassurance to our stakeholders as we transition to new forms of financing?

4. Impact measurement

If the point of expanded earned income activity is to enhance an organization's ability to carry out its mission, steps should be taken to measure how well it is doing so. Impact can be defined as the outcomes that have resulted from and can be attributed to an organization's activities. Impact measurement helps an organization to understand how its resources are used to create value in the community and can be an extremely useful process for strategic decision making and communications. There are many impact measurement tools available and some research may be required in order to determine the most appropriate method for the organization. Organizations should consider questions such as:

- How does the organization define its impact?
- How do key stakeholders define the impact that the organization creates?
- How do the earned income activities contribute to achieving the organization's impact?
- How will this impact be measured and communicated both to internal and external audiences?
- How will the results of impact measurement inform the organization's future work?

How can you contribute to this effort?

There are a number of policy areas that will have an impact on organizations' ability to successfully develop and expand earned income activities. Imagine Canada is looking to develop a related paper on these policy issues at the federal level. We welcome charity and nonprofit leaders' input as well as that of our partners in business and government, both on this framework and on the policy issues to be explored. To share feedback on this framework or to add a resource to one of the tables, please contact [Michelle Gauthier](#), [Bill Schaper](#), or [Brittany Fritsch](#) or email publicpolicy@imaginecanada.ca.