

Declining Profit Margin: When Volunteers Cost More Than They Return¹

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Abstract

The voluntary sector has approached the engagement of volunteer resources in a largely haphazard manner. Organization leaders, service planners, and funders have failed to fully understand, appreciate, and accurately assess the value of volunteer involvement. As a result, some volunteer positions are probably returning less or little more than they cost to sustain. More importantly, a plethora of new opportunities could be created by those who are open to new ways of engaging volunteer talents. The concept of profit margin is offered as a mechanism for beginning to conceptualize the relative costs and returns of volunteer positions. Organizations are urged to undertake a systematic review of where they engage volunteers and consider volunteer involvement as an important human resource asset early in organizational and service planning cycles. The cost-benefit analysis implied by the concept of a profit margin may reveal new volunteer opportunities that return great value for reasonable input costs.

Key Words: cost-benefit analysis, impact assessment, profit margin, volunteers

Introduction

This paper looks at volunteer involvement as a formal resource component of the human service² delivery system. The central concept is that organizations engaging volunteers may find it useful to carefully review their current volunteer positions to determine whether they are returning good value or whether there might be more productive and/or less costly positions that could be developed for volunteer involvement. The way in which volunteer involvement has evolved, combined with the failure of many nonprofit organizations to integrate into their service planning the nearly boundless capacity of volunteer resources, has resulted in a good deal of inefficiency, excess cost, and lost potential.

The patterns of volunteer involvement described here are based on the author's experience of the evolution of volunteer involvement in the nonprofit sector in Canada and the United States; however, this discussion will apply to other western countries such as Australia and the United Kingdom. The recommendation to more accurately assess the costs and returns of volunteer involvement will have a good deal of relevance wherever volunteers are involved. In programs, organizations, and countries where volunteer involvement is a more recent phenomenon, this discussion may help to ensure that volunteers are effectively engaged in positions that return valuable benefits at a reasonable cost.

The Expectation and Costs of Volunteer Productivity

While some types of volunteering are created primarily to serve the volunteer (in the rehabilitation and mental health fields, for example, volunteering is viewed as part of the healing process), most volunteering is organized to generate benefits beyond the persons engaged in it. Hence, it is widely acknowledged that volunteering can produce benefits for the organization engaging the volunteer and/or for service users, program participants, and communities at large. In this sense there is usually an expectation that volunteers will generate value through their involvement.

Volunteers are often a cost-effective source of labour, but they certainly are not “free.” In most instances, volunteer engagement needs to be coordinated. Typically, volunteer coordination entails a series of functions including, for example, needs assessment, volunteer position design, infrastructure development, recruitment, screening, orientation, training, placement, supervision and ongoing support, recognition, performance evaluation, and program evaluation. While there is a wide range in the degree of formality with which these functions are undertaken, most organizations find it necessary to invest some measure of time and financial resources to successfully engage volunteers. Where the work of volunteers is more complex, sophisticated, risky, or direct-service in nature, the costs associated with its coordination usually increase. In societies where liability can be connected with the involvement of volunteers, a greater pressure exists to ensure the safe and effective engagement of volunteers (Graff, 2003). These factors are typically associated with higher volunteer coordination costs both in terms of time and money. Because volunteer labour is by definition unpaid, there is a general assumption, though

perhaps rarely articulated, that volunteer involvement will return more than it costs to mobilize. The returns on volunteer involvement take many forms, but the “assumption” prevails that when all costs and benefits are tallied, there is a positive return on the investment in volunteer involvement. The term *assumption* is used deliberately here because it is so often the case that volunteers are engaged with much less conscious planning or rigour than paid staff.

The Evolution of Volunteer Involvement

In many countries, volunteer participation has become increasingly important to the capacity of nonprofit organizations to meet their missions. The combination of expanding need and increasing mandates with budget cuts presses nonprofits to near breaking points. And the situation seems to keep getting worse.

The speed of government offloading of services to voluntary organizations has accelerated greatly. The funding issue is not simply about replacing sustaining with project money, but in many cases a total withdrawal of support. (Phillips, 1995)

Nonprofit organizations, and even some government departments, ministries, and programs, have come to rely quite heavily on the involvement of volunteers for the successful implementation of their programs and services. The report of the Advisory Board on the Voluntary Sector, an Ontario government initiative entitled *Sustaining a Civic Society in Ontario*, identified as early as 1997 that fundamental shifts of government responsibilities into the voluntary sector would lead to a greater reliance on volunteering if previous service levels were to be maintained.

Of great importance is the recognition that the local community is the basis for

voluntary action and that a healthy and economically strong community includes a robust voluntary sector. Support for enhancing voluntary action is crucial if we are to not only prevent the collapse of a previously well-developed system but adjust to the “sea change” that is occurring.

As Foster & Meinhard (2000) suggest,

... the reality is that government funding for social and cultural services has decreased substantially in the last few years.... This has resulted in an attempt by social service organizations to avert cutting services by relying more on volunteers, either for help in providing services, or for fundraising purposes, where possible.

In many cases, organizations would have to close their doors if volunteer help were not available. This is most certainly true for tens of thousands of all-volunteer organizations as well as for those many more in which the number of volunteers far exceeds the number of paid staff. For example, volunteer-based youth mentoring services; citizen-based environmental lobbies; community services such as Meals on Wheels; the growing volunteer-based hospice and end-of-life care movement; neighbourhood safety patrols; rural and remote area fire fighting, life-saving, and rescue squads; and the local chapters of many of the large international development and health charities would simply cease to exist without the extensive involvement of literally millions of volunteers.

In their increasingly important roles, volunteers are not confined to back-room administrative or support functions. On the contrary, volunteers are often found on the front lines of service delivery and mission accomplishment. Many are directly involved in the community, connecting directly with

service users, representing their organizations to the public, and making important managerial, governance, and planning decisions.

The expansion of volunteer involvement in service delivery throughout the nonprofit and public sectors has occurred in a largely unplanned fashion. Some might even call it haphazard. Volunteers have so often been add-ons or afterthoughts. Organizations plan their programs, launch new initiatives, and/or create new services based on available financial and human (paid employee) resources. Only after other plans have been finalized do they consider whether volunteers might be involved in some way. It is unusual for the manager of volunteers to be involved in high-level service planning or consulted about what programs might be possible or expanded through volunteer involvement.

In its “exploration of the cost of a volunteer,” the Grantmaker Forum on Community & National Service offers this caution about the haphazard approach to volunteer involvement:

Nonprofit organizations that have a vision for incorporating volunteers in service delivery accrue advantages over time to their volunteer programs. The support, supervision and attention that volunteers require, not to mention the logistical aspects of scheduling volunteer labour, are significant burdens to an organization and cannot be established casually as an add-on service. (2003, p. 11)

The same absence of serious attention to volunteer involvement is replicated at the community level. Few community service planners, funders, or government officials consider volunteers an integral component of the overall human resources capacity when developing services or service

delivery systems. Even though it is widely true that funders are placing greater expectations on community organizations to engage more volunteers, those same funders and governments tend to ignore the overall potential of volunteer engagement. There is very little formal calculation of the roles that volunteers might play, the numbers of volunteers that might be engaged in various capacities, the relative size and capacities of paid and unpaid workforces, or the funds that should be designated to support effective volunteer involvement. At both the community and organization level, volunteer involvement is just taken for granted. It is simply assumed that it will happen to some extent. Volunteers will be sought and they will come forward. They will be engaged. They will do work. All will be well.

Even in contemporary times, where volunteers have become essential workers indispensable to service delivery, there remains a rather cavalier attitude toward their engagement. Many senior agency administrators (paid executives and board members alike) are only vaguely aware that volunteers are utilized, but rarely understand precisely how they function, how important they are, or what it takes to find them, engage them, and keep them safely and productively involved.

There are exceptions of course. A small proportion of nonprofit organizations have begun to pay much closer attention to the engagement of volunteers and the resources required to do that well. But these are still, unfortunately, in an extremely small minority. Managers of volunteers still report time and time again that their administrators, funders, politicians, and community planners really have no substantive understanding of the true capacity of volunteers or the emerging challenges in volunteer program management.

Volunteers as Important and Cost-Effective Labour

Historically, routine, monotonous, or support functions were delegated to volunteers. While there have, of course, been exceptions, many organizations tended to reserve the “real” work for paid employees. Proof of this is clearly documented in the volunteer program management literature of the 1970s and early 1980s in discussions about how to distinguish between paid and unpaid work. The oft-touted rule was: *Volunteers supplement but never supplant the work of paid staff*. The implication was that paid staff do the essential work and volunteers do the fluff.

Volunteer involvement expanded into areas of more significant or direct service work through the late 1980s and 1990s partly because budgetary shortfalls made it more difficult or impossible for nonprofit organizations to hire the paid staff needed. This turned volunteers into a “second-choice” labour force (Ellis, 1996). Organizations would have hired paid staff to do the work if resources would have been available, but since they were not, volunteers were recruited to fill the gaps. This trend, combined with a more general anti-professional bias in the 1970s and the recognition that everyday citizens could be relied on to do responsible work (and that one did not necessarily have to have a degree or professional designation to be helpful), contributed to an expanding use of volunteer resources in the direct delivery of services to agency clients.

As financial shortages have continued to plague the nonprofit sector into the twenty-first century, the engagement of volunteers in ever-important roles has been the norm. Recent research in Canada on the importance of volunteers suggests that

voluntary effort is key to the functioning of voluntary organizations.

Voluntary organizations are able to provide programs and services largely because of the unpaid efforts of volunteers who sit on boards of directors and committees, and who provide direct services, such as coaching and organizing fundraising activities, mentoring young people working with the elderly and delivering meals. (Quarter et al., 2002, p. 2)

Phillips, Little & Goodine (2002) note the critical role that volunteers already occupy in the community-based health care delivery system in Canada and predict that their importance will increase “dramatically” over the next fifteen years (p. 2).

Sonnie Hopkins (2002, p. 2) echoes the same theme for Australia:

... it seems that volunteers are playing an increasingly important role in the delivery of social services. Within Australia, governments are decreasing their delivery of support services and instead contracting them out to not-for-profit organizations; work that often involves volunteers.

Despite their increasing importance, there continues to be a general failure among many organizations to consider volunteers an integral component of the overall human resource capacity.

The availability and willingness of so many wonderful Canadian (and US, and Australian, and ...) citizens to come forward and volunteer in the last two decades of the twentieth century have been, in large part, why human services systems have been as able as they have been to meet growing client and community need during this time of extreme economic restraint. When volunteers were needed, they were there.

This is not to say that it has always been easy to recruit volunteers, but in a general sense, it has been possible to build a parallel labour force of unpaid workers because volunteers responded to the call for help. It is not an exaggeration to suggest that at this point community life as we know it would crumble without the involvement of volunteers. Health care and, in particular, community-based health care, social service, heritage, cultural, environmental, political, religious, education, justice, and public safety programs and initiatives would falter if not grind to a standstill without volunteer labour.

While the involvement of volunteers has almost always required some degree of coordination, there is no question that volunteers have been an important and a cost-effective resource. They have returned good value to the organizations that have engaged them, and service users and all citizens in general have reaped a multitude of benefits over the decades from the involvement of millions and millions of volunteers. To have had to pay for this labour is inconceivable.

The Evolution of Volunteer Program Management

Historically, the approach to volunteer involvement has been, at least in relative terms, relaxed and informal. When help was needed, one simply asked for help. In early days, family, friends, and neighbours were enlisted as required.

During the 1980s and 1990s volunteers became increasingly engaged in front-line work. Now it is very common for organizations to place volunteers in positions of significant trust from which they have unsupervised access to vulnerable people; access to private, privileged, or confidential information; and/or access to

money or other valuables. As volunteer work became more responsible and specialized and as increasing numbers of volunteers were needed to extend the capacity of the paid labour force, a more formalized approach to volunteer coordination was needed. Ultimately, many organizations have been pushed to designate a specific person to organize volunteer efforts, and over time that role has become increasingly specialized as more and more infrastructure was required to ensure the right people were being placed in the right positions and that expectations and performance standards were being met.

Volunteer programs now involve a much greater degree of organization and oversight. Recruitment is targeted to attract the right kind of volunteers for the positions offered. For positions of trust, applicants must be screened in attempts to rule out those who might be inappropriate or potentially harmful and to ensure that people are placed in appropriate positions. New volunteers require orientation to the organization, its mission, values, and activities as well as position-specific training. In highly responsible or high-risk positions, initial and ongoing training can be extensive. Volunteers need day-to-day support, supervision, and oversight to ensure attainment of performance standards, safety, service quality, and volunteer satisfaction. To guide and sustain these program management functions, infrastructure needs to be built and should include information and data collection systems; communication and accountability systems; risk management processes; planning and budgeting; and policies and procedures (Graff, 2005). Increasing standards in volunteer program management, almost without exception, costs more.

Because of changing demographics and expectations among those who volunteer,

organizations are compelled to invest more time and money in the recruitment, training and retention of 21st century volunteers than of volunteers in times past. (The Grantmaker Forum on Community & National Service, 2003, p. 8)

When volunteering was relaxed, informal, and largely self-organizing, associated costs were far less, and their returns demanded far less scrutiny.

Now, with increasing management standards requiring greater resource allocations (e.g., more program coordination and supervision time, hard costs of screening and training and recognition materials, etc.) and with volunteers tending to stay for shorter periods of time, organizations need to think carefully about the returns they get back from the investments they make in volunteer involvement. (Graff, 2005, p. 20)

Volunteer Involvement by Happenstance

Interestingly, managers of volunteers recognized the increasing sophistication of the work being assigned to volunteers, but senior administrators and board members have remained largely ignorant of just how vital volunteers are to service delivery. The result is a significant gap between the real sophistication of volunteer program management and senior nonprofit and public sector executives' understanding of that reality. This has prevented volunteers in many organizations from reaching their true potential. Because the volunteer resource is not considered throughout the service planning cycle, volunteer involvement tends to be tacked on later in what often develops into a patchwork of volunteer roles added from time to time to shore up deficits and shortfalls or to undertake work that paid employees either do not want to do or are willing to share with their unpaid

counterparts. Staffing of the volunteer program and other essential volunteer program resource requirements are often sorely inadequate.

In some cases, traditional volunteer roles continue unchanged, sometimes over years and even decades. Volunteers always having done a particular function in a particular way is given as reason enough to let things go on in the same manner. That everything else around the volunteer role has been transformed by massive social change, emerging human needs, economic and political transitions, shifts in funding priorities, program and service expansion and so on is oddly irrelevant. The result is that some volunteers can still be found doing the same work in the same way as volunteers did two or three or four decades ago, and no one has ever stopped to wonder whether the work is still useful or whether the way in which the work is being organized is the best way to produce desired outcomes.

Applying the Notion of Profit Margin to Volunteer Involvement

Profit margin is a measure of the net gain (or loss) of revenue minus expenses. While it does not, strictly speaking, apply to volunteer involvement³, it is used here to point to the net value of volunteer work when all of the input costs of generating the volunteer work are contrasted against the value generated by the work itself.

As input costs (the operating expenses of the volunteer department, for example) rise and/or as the amount of work done by volunteers or the intrinsic value of that work diminishes, the profit margin narrows. Consider these examples:

- If certain traditional volunteer positions have become very difficult to recruit volunteers into, is it perhaps

time to consider retiring those positions?

- If position requirements no longer match the interests and limitations of the contemporary volunteer labour force, does it not make more sense to alter or retire the position than to spend even greater resources trying to talk volunteers into doing that work and then replacing those who agree to volunteer but fail to stay because the position does not meet their needs?
- If the application of new technology can produce results more effectively and/or efficiently than traditional methods that engage significant numbers of volunteers, does it not make more sense to invest in the technology and turn volunteer resources to more profitable involvement?
- If volunteers could be recruited to help solve high-level organizational problems, assist managers with senior level strategic planning, conduct market research or needs assessments, or accomplish any number of the dozens of other things of which skilled volunteers are now capable, does it not make more sense to invest in the recruitment of those kinds of volunteers who can potentially generate huge returns and/or cost savings and let go of some of the traditional volunteer positions that no longer hold such great relevance to the pressing needs of the contemporary nonprofit organization or that are increasingly difficult to fill?

Assessing the Value of Volunteer Work

To apply the concept of profit margin to volunteer work, one must calculate both the cost of the involvement and the return on that investment. This requires a way to

accurately assess the value of volunteer work. There has been a flurry of discourse in the volunteer program management literature in the last few years on this topic, much of it sidetracked into the calculation of the wage replacement equivalent. Suggesting that the value of volunteer work is equivalent to the wage not paid to have the work completed does a disservice to volunteers everywhere and obscures the complex and multiple values that spin out from every act of volunteering. This complex matter deserves more attention than can be given here, but the author has addressed it in a companion article entitled "The Value of Volunteer Work: A New Conceptual Model." Only when an accurate and informed method of calculating the value of volunteer work is developed will the sector be able to maximize the vast potential of volunteering and truly demonstrate the respect that volunteers deserve.

Notes

1. This article is adapted from a paper entitled "Declining Profit Margin and The Value of Volunteering: When Volunteers Cost More Than They Return" presented at the 10th IAVE Asia-Pacific Regional Volunteer Conference in November 2006 in Hong Kong.
2. The human service delivery system is broadly defined to include a wide range of programs and services to individuals and communities, including but not limited to the fields of health care, education, social services, recreation, sports, culture, heritage, and environmental protection and conservancy.
3. As Quarter et. al. point out, it is problematic to adapt normal financial accounting and measuring concepts to volunteering because, "while volunteers generate part of the value of the organization, the contributions of volunteers do not usually involve financial transactions

and therefore, do not usually show up on financial statements." (2002, p.3)

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About the Author

Linda L. Graff has delivered workshops and keynote addresses for more than 25 years to tens of thousands of participants throughout North America and many other countries around the world. Author of nine books and many other resources on volunteering, Linda focuses on emerging trends and the tough areas of policy development, risk management, screening, and discipline and dismissal. Internationally recognized for her innovative and challenging large-picture vision, Linda is one of Canada's foremost authorities on volunteerism.

"Contribution margin is a common financial analysis tool that's not very well understood by managers a term that can be interpreted and used in many ways," said Joe Knight, co-founder of businessliteracy.com in an interview with the Harvard Business Review. In spite of Knight's warnings, if you learn to grasp the concept of contribution margins, gross profit margins, contribution margin ratios and what these numbers mean for your business, you will have the keys to unlock profitability and exceed your business's potential. Tell me more about margin calls. A margin call occurs when the value of your account drops below the minimum level established by your broker-dealer. To resolve a margin call, you can either deposit more funds into your account or close out (liquidate) some positions in order to reduce your margin requirements. Alternatively, E*TRADE can sell securities in your account in order to cover your margin deficiency at any time without prior notice. You are also responsible for any shortfall in the account after these sales. By contrast, a margin account allows you to borrow half of the cost of the trade from your broker. In this case, you would put up \$3,000 to own \$6,000 worth of stock. This activity would also be subject to applicable fees, commissions, and interest. Profit margin, net margin, net profit margin or net profit ratio is a measure of profitability. It is calculated by finding the net profit as a percentage of the revenue. Profit margin is calculated with selling price (or revenue) taken as base times 100. It is the percentage of selling price that is turned into profit, whereas "profit percentage" or "markup" is the percentage of cost price that one gets as profit on top of cost price. While selling something one should know what percentage of profit Operating Profit Margin is a profitability or performance ratio that reflects the percentage of profit a company produces from its operations, prior to subtracting taxes and interest charges. It is calculated by dividing the operating profit by total revenue and expressing as a percentage. In other words, they are costs that vary, rather than fixed expenses Fixed and Variable Costs Cost is something that can be classified in several ways depending on its nature. One of the most popular methods is classification according. A company may have little control over direct production costs such as the cost of raw materials required to produce the company's products.