

**Philanthropy in a Recession: An analysis of UK
media representations and implications for charitable giving**

Paper presented at

NCVO/VSSN Researching the Voluntary Sector conference

8-9 September 2009

Beth Breeze Centre for Philanthropy, Humanitarianism and Social Justice

University of Kent b.breeze@kent.ac.uk

&

Gareth G Morgan, Centre for Voluntary Sector Research,

Sheffield Hallam University gareth.morgan@shu.ac.uk

Corresponding author:

Beth Breeze

CPHSJ

School of Social Policy, Sociology & Social Research

University of Kent

Canterbury

CT2 7NF

Tel: 01227 824 303

E-mail b.breeze@kent.ac.uk

Please note, this is a working paper in progress - please contact the authors
before citing in case a later version is available

Philanthropy in a Recession: An analysis of UK media representations and implications for charitable giving

Abstract

The recent economic downturn experienced in the UK and other major economies has led to intense speculation about the impact on non-profit organisations. In particular, there has been an assumption that charities will suffer significantly as a result of decreased donations and increased demand.

However, drawing on an analysis of UK media coverage of philanthropy and charitable giving during a six month period, this paper seeks to re-appraise existing research on charitable giving in order to consider the impact of a recession. We show that much of the media comment fails to take account of existing theory regarding the non-economic basis of most philanthropic motivations, nor of the varied nature of charitable beneficiaries, which extends well beyond the financially disadvantaged. The paper also explores known features of recessionary impacts such as variability across the sector; time lags between economic conditions and changes in donor behaviours; and factors that affect resilience, such as the possession of reserves and investment in fundraising activities. The paper concludes by discussing implications for donor fundraising strategies.

1. Introduction

The question of how the current global recession is affecting the charity and not-for-profit sector has received immense discussion. In the UK, as outlined below, such discussion has involved academics, the charity-specific media, and the mass media; in all cases, it is assumed that charitable giving will suffer greatly.

This paper makes no attempt to address the broad landscape of recession and its impact on charities: our aim is purely to consider the issues in terms of philanthropy.

We seek to examine the assumption that charities will struggle in a recession to win the philanthropic support they need by drawing on a re-appraisal of existing research on donor behaviour and an analysis of recent media coverage of the issue. We seek to offer a qualitative assessment of likely impact in relation to different forms of charitable giving in the UK.

Of necessity, the full impact of the recession on charitable giving cannot be known until it is well over and all charities have reported their levels of voluntary giving for all the years affected, on the lines of Mohan & Wilding's (2009) analysis in relation to past recessions. Even so, it will be difficult to isolate the specific impact of one external factor (the recession) when most charities are subject to a wide range of external factors which influence the level of donations they receive. One such external factor is media coverage of the recession and charitable giving, which may itself have implications for donor behaviour.

2. Context and assumptions

The global recession has dominated both public and personal life during 2009. Efforts to create fiscal stimulus packages have been the focus of political activity in many Western countries. Fears of unemployment and negative equity are present in households with many different levels of income.

Please note, this is a working paper in progress. 3

Please contact authors before citing in case a later version is available

The non-profit sector has also prioritised the recession as an issue of prime importance: there has been a plethora of studies on recessionary impacts, many conferences on the theme of ‘managing in a recession’ and various forms of support have materialised, both from governments and from within the sector¹.

Despite universal acceptance that non-profits are no more ‘recession-proof’ than any other part of society, the precise nature of the threat to non-profits has rarely been spelt out. We assert that there are two assumptions behind most discussions, as follows.

- (1) The first assumption is that in a recession, people have less money so the amount they donate to charity will be decreased or stopped.
- (2) The second assumption is that in a recession, more people will be in need of support, so demand for non-profit services will rise.

Belief in the existence of this ‘double whammy’ is exemplified by Harrow and Pharoah (2008:1) who state: *“In worse case scenarios, charities will experience falling donations and revenues just at the point where demand for their work rises, and continues to rise.”* Similarly, the Charity Commission’s Annual Report for 2009 states that charities are *“increasingly challenged by falling income and escalating demand for their services”* (Charity Commission 2009b:4).

The aims of this paper are to consider the empirical basis of assumptions regarding the certainty of donor decline and the inevitability of increasing demand, and to explore the extent of these assumptions within media representations. We begin by reviewing data concerning UK media coverage of the recessionary impact on charities. We then discuss this data in the light of the extant literature on philanthropic motivations and the nature of the constituencies served by non-profit organisation. The paper concludes with some indications of possible adjustments to non-profit marketing activities in the light of a more robust reading of the impact of the recession on the non-profit sector.

¹ For example, the UK government announced a £40m ‘bail out’ package for the voluntary sector in February 2009; ‘recession summits’ have been co-hosted by the government and the National Council for Voluntary Organisations (NCVO) in October 2008 and June 2009; an event examining research issues arising from the recession was sponsored jointly by the Economic and Social Research Council, Volunteering England and NCVO in April 2009; and in June 2009 advice was issued to charity trustees on responding to the economic downturn (Charity Commission 2009a). Please note, this is a working paper in progress. 4

3. UK media coverage of recessionary impacts on non-profits: methods and findings

This study originated when the authors noted references to ‘inevitable’ drops in charitable donations and ‘certain’ rises in demand in a wide range of newspapers which did not appear to be firmly based on research. It was therefore decided to undertake a systematic analysis of UK print media coverage in order to quantify the extent and depth of this phenomenon.

A period of media analysis was therefore undertaken, running from the collapse of Lehman Brothers (mid-September 2008) to mid-April 2009. The data was obtained from the LexisNexis dataset, which is an online, searchable archive of the full content of most UK newspapers². The approach used was to conduct a search for articles in national and regional UK newspapers that contained mentions of the terms:

[‘charitable giving’ OR ‘philanthropy’] AND ‘recession’

where the brackets indicate the logical order in which the tests were combined³.

This search identified 97⁴ articles, which were coded by the authors using a simple three-mode categorisation under which each reference to these issues was rated:

- a) as containing ‘negative/alarmist’ messages about the impact of the recession on giving; or

² UK coverage within the LexisNexis database includes the daily and Sunday editions of the following national titles: The Times, Telegraph, Guardian, Independent, Express, Mail, Mirror and the Sun with coverage across every UK region considering 458 national and regional newspapers in total. (LexisNexis 2009). The search was restricted to mentions of the words identified as “major” by LexisNexis.

³ It is accepted that this search would not necessarily have identified articles which dealt *purely* with the second assumption regarding increased demand for charity services; however, it seems likely that any major articles on this theme would at least have mentioned the implications for charitable giving.

⁴ The search generates a total of 115 items but only 97 different articles once duplications are removed, as LexisNexis contains multiple versions of articles that are published in different editions of the same newspaper.

- b) 'positive/robust' messages' about the ability of charities to deal with the recession; or
- c) 'neutral/neither' messages, i.e. articles which mentioned charities and the recession in passing, rather than offering specific comment on the implications.

The findings are presented in Table 1.

Table 1: The tone of UK media coverage of philanthropy in the recession between 21/9/08 and 19/4/09, inclusive.

Type of coverage	Number of articles
Neutral – non-profits are neither portrayed as vulnerable or robust during recessionary times	63
Negative/alarmist – non-profits are portrayed as vulnerable during recessionary times	30
Positive/reassuring – non-profits are portrayed as robust during recessionary times	4

Whilst a good deal of coverage (63 cases) uses the words concerned but does not specifically comment on the impact of the recession on charities, it was found that in the 34 cases where some comment is made, it falls overwhelmingly (30 cases out of 34) into the negative/alarmist category.

As illustrated below, few cases offer any firm evidence for the comments made. Rather the media perspective could be described as promoting a 'taken-for-granted' view that, in recessionary times, there will be an inevitable decline in charitable donations and rise in demand for non-profit services.

3.1 Negative/alarmist messages

Closer inspection of the 30 cases coded 'negative/alarmist' reveals that in many instances the 'reportage' amounts to little more than a point of conjecture or the journalists' personal taken-for-granted view. For example, one claims that *"it's crunch*

*time for charities*⁵ and another asserts that British have become “*too scared to spend*”⁶ on charity.

Where the coverage purports to be data-driven these are based at best on surveys of sentiment rather than of actual behaviour and at worst on ‘bad science’ with poorly designed research questions, inadequate samples and misleading results as the following four examples demonstrate.

Firstly, an article⁷ reports on a survey⁸ which asks charities to predict what they *expect* will happen to their voluntary income, it is therefore opinion-based not fact-based, yet the article reports that, “*Charities are facing a multi-billion pound black hole in their finances*” (emphasis added), rather than the more accurate conclusion that they “*fear*” they are facing a black hole.

Secondly, an article concerns a survey run by the Charity Commission for England Wales and reports that, “[o]ne in four charities that accepts donations has seen a fall in giving”⁹; the 75% who have not experienced such a fall are not reflected in the headline which reads: “*Charity donations hit by financial crisis*”. The same article also suggests that the cancellation of black tie fundraising events provides further evidence of the ‘crisis’, yet the quote used to support that part of the story makes clear this is the result of an adaptive strategy driven by changing norms during a recessionary period, rather than due to a collapse in support. The quote in the article is from a charity spokesperson who says, “*Given what has happened in recent weeks we didn't think guests would feel comfortable attending that sort of event. It just didn't seem appropriate... There is money out there, and many of our supporters are long-term subscribers, but the climate has changed this year.*”

⁵ ‘It’s crunch time for charities’, Sunday Times, 19/10/08

⁶ ‘How Britain became too scared to spend’ Daily Mail, 16/4/09

⁷ ‘Charities lose faith and hope as funding crises leaves them with £2.3bn black hole’, Guardian, 1/12/08

⁸ This survey of 362 charities was undertaken jointly by the Institute of Fundraising, PriceWaterhouseCoopers and the Charity Finance Directors Group

⁹ ‘Charity donations hit by financial crisis’, Daily Telegraph, 8/11/09

Please note, this is a working paper in progress. 7

Thirdly, an article headlined “*The Worst is Yet to Come*”¹⁰ reports on figures regarding charity reserves¹¹. The data shows that half of UK charitable sub-sectors have enough reserves to sustain them for two years or more, some charities have enough reserves to keep functioning for over a decade, whereas others have only enough in reserves to last for a few months: we explore this further below. So again, the ‘real’ story is of a mixed picture, rather than the generalised panic implied by the headline.

The final example of negative/alarmist coverage is an article headlined: “*Please Help: Charities in dire need*”¹² which reports, amongst other recession-related issues, a 67% increase in direct debit cancellations. Yet closer examination of the source of that figure¹³ reveals that it refers to a percentage rise in monthly cancellation rates from 3.54% in 2003 to 4.65% in 2008. This means that where a charity could, on average expect three or four donors in a hundred to cancel their direct debit payments each month in the period from April 2003 to July 2007, they could expect four or five donors in a hundred to cancel their regular payments in December 2008. Injudicious rounding down of the 3.54% figure enables the claim to be made that charities losing five donors instead of three have experienced a ‘67% increase in cancellations’ which arguably does not warrant the hyperbolic headline. Furthermore, this research reveals nothing about the value of the cancelled donations or whether they are outweighed by other donors increasing the value of their gifts. Nor does it explain how the cancellation rate is affected by new fundraising methods, notably face-to-face or street fundraising, which are known to have higher attrition rates. It is perfectly possible that this is an example of “*what would have happened anyway*” (Anheier 2009:2-3) or “*events already in train*” (Pharoah 2009), as any increase in cancellations could be a result of developments in fundraising techniques, rather than a consequence of the recession.

3.2 Positive/reassuring messages

¹⁰ ‘The Worst is yet to come’, Guardian, 18/2/09

¹¹ The data on charity reserves was published in the UK Civil Society Almanac 2009, produced by NCVO

¹² ‘Please help: Charities in dire need’, Independent on Sunday, 19/4/09

¹³ The data on direct debit cancellations was produced by Rapidata and received prominent coverage in charity-sector publications, which unfortunately are not included in the LexisNexis database, for example Third Sector magazine carried a front-page headline: ‘Cancellation of direct debits to charities is ‘skyrocketing’ on 10/3/09.

Please note, this is a working paper in progress. 8

Please contact authors before citing in case a later version is available

Turning to the four cases coded 'positive/reassuring', three of these articles appeared in regional newspapers, supporting prior research findings that local media tend to place a more positive emphasis on stories about charity (Fenton, Golding et al. 1993:7; Deacon 1999:58-9). The three cases are firstly, an article¹⁴ headlined "*Charity's donors shrug off crunch*", which claims that, "*the credit crunch and looming recession have failed to stop wealthy donors giving north-east communities a multi-million pound boost*".

The second of these cases¹⁵ claims that "*Credit Crunch fails to beat region's generous nature*" thus supporting the argument that local media representations are, in part, about positive identity construction in that locality (Ewart 2000). The third case¹⁶ is headlined "*Acts of sheer generosity*" and reports on a surge of support for a local fundraising appeal, stating that "*The recession does not bring out the miser in all of us*".

The one case found in a national newspaper was written by one of the authors of this paper¹⁷, and covers many of the points below.

3.3 Other insights from media reports of charitable appeals

As noted above, only the published annual accounts of charities covering this financial period will accurately reflect the actual changes to charitable income and demand during this period, and thus indicate whether the 'alarmist' or 'positive' messages are correct. The lack of 'real-time' data on income and activity is a significant barrier to making accurate assessments about recessionary impacts.¹⁸

However, a number of major fundraising appeals that have taken place during the economic downturn have already published their results and all show significant

¹⁴ 'Charity's donors shrug off crunch, Northern Echo, 1/1/09

¹⁵ 'Credit crunch fails to beat region's generous nature', Liverpool Daily Post, 18/3/09

¹⁶ 'Acts of sheer generosity', Western Morning News, 15/4/09

¹⁷ 'The recession has not stifled the public's giving spirit', Guardian, 9/1/09 - co-authored by Beth Breeze and Cathy Pharoah.

¹⁸ Although all registered charities in England and Wales over £25,000 income are required to file accounts with the Charity Commission, there is often a considerable time lag (Morgan 2008). Many charities have a 31 March year end, so even if the recession were to end by December 2009, accounts would be needed covering the years ending 31/03/09 and 31/03/10 – the latter do not have to be filed with the Commission until 10 months after year end, i.e. not until 31/01/11.

Please note, this is a working paper in progress.

increases on previous years. The BBC Children in Need appeal, which took place on 14/11/08 raised £21 million on the night, beating all previous records¹⁹; Comic Relief on 13/3/09 raised £57 million on the night, up from £40 million the last time it was held in 2007²⁰ and a final figure of £80m, up from £67m in 2007²¹; and the London marathon which took place on 26/4/09 raised £22.5 million through online giving website Justgiving, up 7% on the 2008 total²².

Whilst these are only isolated examples (albeit on a large scale), the record-breaking figures raised by these high-profile UK fundraising events attests to the resilience of charitable giving during the downturn and recession. Although factual reports of these events have appeared, the general absence of *media comment* on such results in times of recession reinforces the authors' view that media gate-keeping has occurred: it appears that positive/reassuring messages have been filtered out in favour of negative/alarmist messages.

4. Insights from the Literature

In the light of these findings from the media, we now assess how far the relevant literature may enable us to consider the recessionary impact in relation to the two assumptions being explored.

4.1 Donor behaviour

The assumptions in media reports of reduced giving in times of recession (even where they arise from surveys of charities' own expectations) appear to be predicated on the belief that donors will, in general, have more limited financial resources in times of recession, and that they will therefore give less. However, the literature on donor motivations clearly indicates that the quantity of financial resources that an individual

¹⁹ According to the Guardian, 'Children in Need raises 11m viewers' 17/11/09

²⁰ According to BBC online, 'Comic Relief reaches record £57m'
<http://news.bbc.co.uk/1/hi/entertainment/7939425.stm> [1 July 2009]

²¹ 'Comic Relief final figure defies recession' Third Sector, 1/7/09

²² According to <http://www.fundraising.co.uk/news/2009/04/28/london-marathon-donations-justgiving-reach-£224-million> [1 July 2009]

Please note, this is a working paper in progress. 10

Please contact authors before citing in case a later version is available

commands is not the sole determining factor behind their philanthropic decisions (for example Edwards 2002; Lloyd 2004; Handy 2006; Sargeant and Woodliffe 2007; Taylor, Webb et al. 2007; Ottinger 2008). If giving were simply a function of how much money an individual has, then every rich person would be a philanthropist. But different levels of giving amongst people possessing similar economic resources demonstrates that having the *capacity* to give is quite different from having the *desire* to give.

Despite the assumptions held by economists, donors rarely account for their actions with reference to the size of their income or assets. Self-reported drivers of giving relate almost exclusively to non-economic factors such as adherence to religious tenets, belief in a cause, desire to create change, feelings of duty and responsibility, enjoyment of relationships with charity staff and beneficiaries, self-actualisation, the desire to create and communicate a positive identity and the creation of a lasting legacy (Panas 1984; Ostrower 1995; Schervish and Havens 2001; Lloyd 2004; Schervish 2005; Frumkin 2006; Payton and Moody 2008). Econometric modelling of donations by Pharoah and Tanner (1997) finds that the propensity to give is affected by employment status: being out of work decreased the probability of giving by seven percentage points. Yet the same study finds that employment status does not determine levels of giving as those not in work gave significantly more, relative to total spending, than those in employment, thus again undermining suggestions of a direct link between possession and distribution of wealth (1997:433).

Many charities derive a substantial proportion of their voluntary income from a limited number of major donors (Allford 1993; Burnett 2002:226), and so the likely behaviour of major donors in a recession is of particular importance. The most extensive published study of major donor motivation in the UK is based on interviews with 76 people with a minimum net worth of £1 million (Lloyd 2004). Within this sample, the amount donated to charity ranged from “*little or nothing*” to 25% of income or as much as 50% of wealth (Lloyd 2004:47). The wide range of giving levels demonstrated within this sample of rich people demonstrates the lack of a simple relationship between the possession and distribution of economic resources.

Furthermore, Lloyd identifies five factors that drive giving, none of which are dependent upon maintaining or increasing income or wealth. Belief in the cause was found to be

“the key impetus” (Lloyd 2004:78) behind donations; the size of gift and likelihood of ongoing commitment also crucially depend on this factor (p.80). Secondly, Lloyd’s interviewees want to make an impact and for their gift to result in *“something that otherwise wouldn’t have happened”* (p.81). Thirdly, Lloyd found self-actualisation, which she defines as *“the realisation of an individual’s personality and development of some or all of its aspects”* to be a more significant driver of recurring commitment than the original stimulus to give (p.83). Duty and responsibility also figured strongly – the sense that those who are more fortunate have an obligation to help the less fortunate and to *“put something back”* into society. (p.87-8). Finally, Lloyd reported that relationships – *“the fun, enjoyment and personal fulfilment”* that comes from getting to know charity staff, beneficiaries and fellow donors (p.90) was a major factor.

Such research shows that philanthropic acts do not occur as a consequence of an individual having spare money. Rather, Lloyd’s study shows that the propensity to give and to make larger donations occurs when donors:

- are motivated by their passion for a cause
- believe they can make something significant happen
- want to explore and develop a new part of themselves
- recognise they are fortunate and wish to give something back
- seek opportunities to build relationships with dynamic people that work in charities, to meet beneficiaries and to get to know other philanthropists.

US studies of philanthropic motivation come to similar conclusions. Ostrower’s research into millionaire donors in New York notes that, *“Philanthropy grows out of the donor’s sense of identity”* (Ostrower 1995:6) while Ritzenhein’s study of major donor motivation concludes that *“People are engaged in a search for meaning... [G]iving, over time or in significant amounts, occurs when it helps people achieve one or more of their needs for meaning.”* (2000:54). Ottinger’s study of people with no further financial goals to meet concludes that, *“With financial freedom, individuals no longer need to focus on wealth-building. Rather they move to a higher level of personal introspection, which relates to their life’s purpose and calling.”* (2008:32).

There is, therefore, concurrence between UK and US research that people are not economic dopes: they do not donate purely as a direct consequence of the possession or lack of wealth. Rather, as Ostrander and Schervish (1990) argue, philanthropy should be understood primarily as a social act that involves many non-economic factors such as the search for a positive identity, bringing meaning to life and creating a lasting impact.

4.2 Donor resources

Moreover, even in those cases where the behaviour of donors may be more closely correlated with their level of resources, it is unclear whether income or assets is the most important measure. For modest regular donations it is generally assumed that income is the key driver, whereas major donations are more likely to be linked to the donor's wealth in terms of total assets (this assumption appears, for example, in Walker and Pharoah 2002; Havens et al. 2006; Mackenzie 2008).

But a recession will, of necessity, affect income and assets very differently. A donor in reasonably secure employment may find little or no impact on income, even if the value of assets held in personal pensions (for example) may be substantially reduced. Conversely, a retired donor living mainly from the interest on savings, may experience a large fall in income as a result of lower interest rates, but may suffer little or no loss of capital if the savings are mainly in the form of cash-based savings accounts. Some donors may actually experience a net financial benefit in a recession – for example many UK households are benefitting from reduced interest rates and hence decreased mortgage payments compared to recent years and may therefore have *more* disposable income. These factors alone are surely sufficient to demonstrate that any simplistic attempt to apply figures related to the economy as a whole and extrapolate them to individual donors is fraught with problems.

Also, historic evidence suggests that there is a considerable time-lag from the start of a recession until an effect is felt in terms of charitable giving (Mohan and Wilding 2009), so even in cases where giving is affected by a donor's reduced resources as a result of recession, the impact on charities' income may show little correlation with movements in the wider economy. This makes intuitive sense, as people giving regularly do not

suddenly stop their standing orders as soon as they hear of a recession. But over time, donors who find themselves out of work may be lost and hard to replace.

4.3 Impact of non-profit expenditure demands

The second assumption we are assessing is the belief that regardless of whether philanthropic income suffers in times of recession, income will be more thinly spread because of increased demand for charity services. But despite widespread expectation that charity is a vehicle by which resources are transferred from the better off to those in need, many studies have demonstrated that only a minority of charitable benefit is directed to the poor and needy.

Studies of the non-profit sector in the US find that only 33% of grant-making benefits marginalised groups (Jagpal 2009) and less than one-third of charitable agencies focus on poor clients (Salamon, Musselwhite et al. 1986). An investigation into ‘who benefits’ from US charity found that *“most [human service] agencies focus primarily on the non poor, and most of the resources go to persons other than the poor”* (Salamon 1992:150). When the same study looked beyond human service charities to the wider non-profit sector it also found *“evidence that relatively few non-profit institutions serve the poor as a primary clientele”* (Clotfelter 1992:22). Clotfelter cites a number of studies which challenge conventional wisdom regarding the beneficiaries of charitable activity: Vickrey (1962) argues that the redistribution effect is minimal because donors tend to give to those only slightly below themselves on the income ladder, and Bethell concludes that *“arts funding is in practice an income-transfer program for the upper-middle class”* (1978:136). There is, therefore, a strong consensus that, *“[t]he vast majority of non-profit agencies and programs do not primarily serve the needy”* (Odendahl 1990:3).

Whilst the distributional consequences of contemporary charity have not been fully researched in the UK, statistics on the numbers of charities focusing on different subsectors (Kane et al 2009:21) indicate that only 23% of general charities are operating in the “social services” field which is the sub-sector where poverty and disadvantage are most likely to be key determinants of demand. Furthermore, the absence of a pro-poor orientation in the UK has been historically documented by Prochaska who claims that the recipients of Victorian philanthropy, *“were not invariably*

at the bottom of the social hierarchy” (1990:373). Even though the latest Charity Commission guidance on public benefit requires that “*people in poverty must not be excluded*” (Charity Commission 2008b), there is no legal obligation either in the UK or US for non-profits to prioritise the needs of the financially disadvantaged. As Clotfelter concludes, “*the desire to help the poor is only one among many competing objectives and there is no a priori reason for it to be a dominant motivation*” (1992:187).

Undoubtedly some non-profit organisations have seen an increase in demand for their services since the economic downturn began, for example those meeting basic needs for food and shelter and those providing financial advice. Other less obvious causes are also affected, for example animal shelters have reported increased activity as owners with financial problems struggle to afford to care for their pets²³. Yet despite the wide reach of the recession, organisations delivering services to the economically disadvantaged constitute only a fraction of the whole charity sector and there is no rationale for increased pressure on every type of charitable organisation. Those conducting medical research, defending the nation’s heritage, protecting the environment or promoting the arts should not be experiencing any recession-related increase in demand. It is therefore misleading to suggest that demand has gone up in every part of the non-profit sector; as with the recessionary impact on donations, the true picture is one of great variability across the sector.

4.4 Charity reserves

A further issue which must be addressed is the level of charity reserves. Most charities experience variations of income from year to year (whether or not there is a recession) and the Charity Commission has long recommended that all charities should have a reserves policy (see Charity Commission 2008 for the latest version of this guidance) – in fact, since 2000 this has been considered important enough to be a compulsory element in the trustees’ annual report, which is published alongside the accounts²⁴.

²³ See, for example, the Blue Cross website item on ‘How pet owners can cope with the recession’ http://www.bluecross.org.uk/web/site/News/2009/credit_crunch_tips.asp

²⁴ In England and Wales, the requirement is currently in reg. 40 of the Charities (Accounts and Reports) Regulations 2008.

Please note, this is a working paper in progress. 15

Please contact authors before citing in case a later version is available

Even if a charity experiences some reduction in income linked to the recession, it may in fact suffer little by way of adverse consequences if it has sufficient reserves (Hudson 2009). By way of example, national economic data (Office of National Statistics 2009) shows that, following many years of growth, the UK economy shrank by 4.9% in the year to 30 June 2009 (the fastest fall in history). If the fortunes of a non-profit organisation followed that of the wider economy exactly, a 5% drop in income should not lead to cuts in services and activities if a sensible reserves policy is in place. For example, a non-profit with three months reserves (25% of income) at the end of the last pre-recession year, could draw on reserves to meet a 5% deficit and still end the year with reserves at 20% of the previous year's income.

Of course, a charity anticipating a 5% income reduction over many years would normally have to cut expenditure to prevent reserves being run down indefinitely, but for short term fluctuations linked to a recession, only a massive drop in income should cause problems for charities with appropriate reserves.

5. Assessment

In the light of the analysis above, we suggest that no simplistic link can be made between an economic recession and the impact on charitable giving. For many donors, their giving behaviour may show little correlation with the state of the economy. Even where giving is affected, we have shown that it is dangerous to assume that most charities will face a "double whammy" with increased demand at the same time as reduced income, or will have so little in reserve that they have to cut services.

We note that there is sometimes a tendency to think of charities or the nonprofit sector as an 'industry' and, therefore, for the media to assume that the whole sector will experience similar effects in a downturn. Yet it is manifestly the case that some charities will see little or no change and some may actually be able to *grow* if they are geared up to address the key problems which appear in difficult times, such as during recessions (e.g. homelessness, debt counselling). For example, both world wars led to the creation of numerous new charities to care for those disabled in battle and impoverished in peacetime (Kendall and Knapp 1996:48-50).

Please note, this is a working paper in progress. 16

Please contact authors before citing in case a later version is available

We reported several cases of major appeals in the UK for which income was substantially higher than a year ago. Likewise, data from the US shows that three charitable sub-sectors experienced an increase in donations during 2008: religion, public-society benefit and international affairs (Giving USA 2009). As an interesting aside, the Giving USA figures²⁵ have been interpreted both negatively and positively – either by emphasising the historically large drop of 5.7% and the first decline in giving since the survey began in 1955, or by noting that 2008 was only the second year on record that individual giving exceeded \$300 billion.

6. Media reportage and implications for fundraising

We therefore conclude that individuals tend to attach a greater value to their philanthropic work than is commonly assumed in the context of news media reportage. Nevertheless, we accept that media representations of a radical decline in charitable giving and a widespread increase in demand for charity services during times of recession, are bound to have an effect upon how charitable organisations engage with the task of fundraising and how individuals and institutions respond to the portrayal of need. Whilst questioning the accuracy and reliability of news media representations, we recognise the potential for individuals and institutions to interpret and respond to the contents of media messages so that changes are initiated within the social and cultural dynamics of fundraising. Put another way, there are likely to be occasions where the realities manufactured by news media acquire a presence and force in people's lives that impact upon their attitudes and behaviours such that the media can affect confidence in giving and create self-fulfilling prophecies of a giving recession. Given this, and having demonstrated the limitations of prevailing assumptions about recessionary impacts, we offer the following recommendations for fundraising strategies.

6.1 The importance of donor care and good communication

²⁵ http://www.givingusa.org/press_releases/gusa/GivingReaches300billion.pdf [1 July 2009]
Please note, this is a working paper in progress. 17

In the light of what is known about the non-economic drivers of giving (passion for a cause, self-actualisation, desire to create a legacy and so on), genuinely committed donors are unlikely to give up support for charities that they care deeply about simply because they hear rumours of recession. However not all regular donors can be described as truly committed; donors can be differentiated between those with ‘passive’ or ‘active’ commitment whereby only the latter donors retain a genuine, ongoing interest in the recipient cause (Sargeant and Farthing 2006). Whilst dissatisfied donors with passive commitment may choose to cancel or reduce their giving at any time, it would seem that such cancellations are likely to be higher in times of recession if donors start to feel under pressure in terms of household resources.

However, the authors’ experiences of interviewing donors is that those who have cancelled their regular donations often indicate it was a result of losing faith in the effectiveness of their giving, rather than being unable to afford to carry on giving. This is backed up research which found that in the UK only 22% of donors terminated support because they could no longer afford to give (Sargeant 2001).

Charities that have not taken donor care seriously (as, for example, described in Burnett 2002) may come to regret that lack of investment, but the reverse is also true. Many charities maintain high levels of donor engagement through effective means of communication: we suggest that, where such communication is genuinely valued by donors, then except in the most financially challenged of households, it is likely to lead to sustained giving during a recession.

6.2 *Spending decisions*

We further suggest that fundraisers need to remember that all spending decisions involve prioritising between competing demands. When people have less surplus income, charities should avoid implying (however unintentionally) that donations will inevitably be amongst the first items to be cut from budgets. Indeed one charity reportedly undertook a test comparing two different version of a mailing, and found that mentioning the recession actually *reduced* the average values of amounts given²⁶.

²⁶ ‘Mentioning the Downturn ‘could reduce donations’’, Third Sector 20/1/09
Please note, this is a working paper in progress. 18

If the sector implies that it expects its income will inevitably suffer – and thus considers itself easily expendable – why should others disagree? Rather, it follows from the analysis in this paper that charities should emphasise the impact of their work and focus on making the case that charitable giving is a priority, not an optional extra.

6.3 Investment in fundraising

Provided that fundraising is cost-effective (i.e. bringing in significantly more income than the fundraising costs), it remains vital, even if the actual amount raised is down on previous years. We therefore suggest that cutting investment in fundraising in a recession would be highly counter-productive. Moreover, maintaining the support of donors and funders will be absolutely critical for when the economy starts to come out of recession and charities need additional resources for future growth.

7. Conclusions

The recession is undoubtedly a huge issue for the non-profit sector in 2009. Charities of all sizes and in all sub-sectors are engaged in efforts to understand the implications for their organisation and to put in place strategies to secure their income during this period. Undoubtedly some non-profits will suffer significantly, but we have shown that there is no basis for assuming that all charities will experience reduced income, despite this being the dominant theme in media coverage, nor for assuming a universal pattern of increased demand. The sector is simply too diverse for such assumptions to be meaningful.

It is entirely understandable that non-profits worry about not having the resources they need to fulfil their mission, yet there is a danger in allowing pessimistic mass media coverage to fuel panic. As we have shown, the evidence of existing research indicates no straightforward causal relationship between economic conditions and the amount of philanthropic spending that takes place. This is primarily because philanthropy is not a simple financial transaction, it is first and foremost a social act that enables people to

pursue their passions, to support causes they believe in and to meet their own need to live a successful, significant and meaningful life which is affirmed by others.

We also report research which shows that the vast majority of non-profits do not provide the type of services which necessarily experience increased demand during a recessionary period, so speculation about declining donations coupled with rising demand is, we assert, a further example of panic-mongering. We have shown that appropriate reserves policies may often be sufficient to mitigate the impact of fluctuating income.

Moreover, we have argued that some donors may actually have *more* disposable income in a time of recession and we have reported figures from major UK fundraising appeals which have reached new heights during the downturn.

We therefore hold that the 'real' impacts of the recession upon charitable giving and philanthropy are highly uneven, and that in many instances, need not have significantly adverse effect on giving behaviours. We conclude that the most important strategy for donor fundraising is thus continued focus on donor care and maintaining effective communication with donors so that the importance of their support remains clearly understood.

References

- Allford, M. (1993). Charity Appeals: The Complete Guide to Success. London, JM Dent.
- Anheier, H. K. (2009). Reflections on the Global Economic Downturn, Philanthropy and Nonprofits. Heidelberg, Germany, Centre for Social Investment, University of Heidelberg.
- Bethell, T. (1978). "Welfare Arts." The Public Interest **53**: 134-138.
- Burnett, K. (2002). Relationship Fundraising: A donor-based approach to the business of raising money, 2nd edition. San Francisco, Jossey-Bass.
- Clotfelter, C. T., Ed. (1992). Who Benefits from the Nonprofit Sector? Chicago, Chicago University Press.
- Charity Commission (2008). Charities' Reserves. London: Charity Commission for England and Wales ref CC19.

Please note, this is a working paper in progress. 20

Please contact authors before citing in case a later version is available

Charity Commission (2009a). The Economic Downturn: 15 questions trustees need to ask. Charity Commission News **29** available at www.charitycommission.gov.uk/tcc/ccnews29check.asp [1 July 2009]

Charity Commission (2009b). Annual Report 2008-09. London, Charity Commission for England and Wales.

Deacon, D. (1999). Charitable images: the construction of voluntary sector news. Social Policy, The Media and Misrepresentation. B. Franklin. London, Routledge.

Edwards, L. (2002). A Bit Rich? What the wealthy think about giving. London, Institute for Public Policy Research.

Ewart, J. (2000). "Capturing the Heart of the Region - how regional media define a community." Transformations(1).

Fenton, N., P. Golding, et al. (1993). Charities, Media and Public Opinion, Department of Social Sciences, University of Loughborough.

Frumkin, P. (2006). Strategic Giving: the art and science of philanthropy. Chicago and London, University of Chicago Press.

Giving USA (2009). Giving USA 2009. Bloomington, Indianapolis, Center on Philanthropy at Indiana University.

Handy, C. (2006). The New Philanthropists. London, William Heinemann.

Harrow, J. and C. Pharoah (2008). Recession and Charities: The paradox of charitable opportunity. London, Cass Business School.

Havens, J. J., O'Herlihy, M. A. & Schervish, P. (2006). Charitable Giving: How Much, by Whom, to What, and How? in The Non-Profit Sector: A Research Handbook. W. W. Powell and R. Steinberg. New Haven & London, Yale University Press.

Hudson, M. (2009). "Use reserves, charities told" - speech reported in Third Sector, 17/2/09, p7.

Jagpal, N. (2009). Criteria for Philanthropy at its best: Benchmarks to assess and enhance grantmaker impact. Washington DC, National Committee for Responsive Philanthropy.

Kane, D., Clark, J., Lesniewski, S., Wilton, J., Pratten, B. and Wilding, K. (2009). The UK Civil Society Almanac. London, NCVO.

Kendall, J. and Knapp, M. (1996). The Voluntary Sector in the UK. Manchester, Manchester University Press.

LexisNexis (2009). Press release 19/06/2009. London, LexisNexis: division of Reed Elsevier (UK) Ltd.

Lloyd, T. (2004). Why Rich People Give. London, Association of Charitable Foundations.

Mackenzie, S., Ed. (2008). A Guide to Giving, third edition. London, Association of Charitable Foundations.

Please note, this is a working paper in progress. 21

Please contact authors before citing in case a later version is available

- Mohan, J. and Wilding, K. (2009). "Economic downturns and the voluntary sector: what can we learn from historical evidence?" History and Policy available at www.historyandpolicy.org/papers/policy-paper-85.html [1 July 2009]
- Morgan, G. G. (2008). The Charity Treasurer's Handbook: An introduction to voluntary sector finance and accounting. London, Directory of Social Change.
- Odendahl, T. (1990). Charity Begins at Home: Generosity and Self-Interest Among the Philanthropic Elite. New York, Basic Books.
- Office of National Statistics. (2009). Latest Indicators: National Accounts/Economic Activity Release date 30/6/09 at www.statistics.gov.uk/instantfigures.asp [16 July 2009]
- Ostrower, F. (1995). Why the Wealthy Give: The culture of elite philanthropy. Princeton, NJ, Princeton University Press.
- Ottinger, R. J. (2008). Beyond Success: Building a personal, financial and philanthropic legacy. New York, McGraw Hill.
- Panas, J. (1984). Mega Gifts: Who gives them, Who gets them? Chicago, Bonus Books Inc.
- Payton, R. L. and M. P. Moody (2008). Understanding Philanthropy: Its meaning and mission. Bloomington, Indianapolis, Indiana University Press.
- Pharaoh, C. and Tanner, S. (1997). Trends in Charitable Giving. Fiscal Studies, **18**(4):427-443.
- Pharaoh, C. (2009) Recession Challenges. Centre for Charity Effectiveness Newsletter, London: City University.
- Prochaska, F. (1990). Philanthropy. The Cambridge Social History of Britain 1750-1950. F. M. L. Thompson. Cambridge, Cambridge University Press.
- Ritzenhein, D. N. (2000). "One More Time: How do you motivate donors?" New Directions for Philanthropic Fundraising **29**: 51-68.
- Salamon, L. (1992). Social Services. in Who Benefits from the Nonprofit Sector? C. T. Clotfelter. Chicago, University of Chicago Press.
- Salamon, L., J. C. Musselwhite, et al. (1986). Partners in Public Service: Government and the Nonprofit Sector in the Welfare State. Working Papers. Washington DC, Independent Sector and the United Way Institute: 3-38.
- Sargeant, A. (2001). "Relationship Fundraising: How to keep donors loyal." Nonprofit Management and Leadership **12**(2): 177-192.
- Sargeant, A. and Farthing, P. (2006). Donor Commitment: What is it, What drives it and why does it matter? Charity Times. **March**: 20-24.
- Sargeant, A. and Woodliffe, L. (2007). "Gift Giving: an interdisciplinary review." International Journal of Nonprofit and Voluntary Sector Marketing **12**(November): 275-307.

Please note, this is a working paper in progress. 22

Please contact authors before citing in case a later version is available

Schervish, P. G. (2005). "Major donors, major motives: The people and purpose behind major gifts." New Directions for Philanthropic Fundraising **47**: 59-87.

Schervish, P. G. and Havens, J. J. (2001). "The Mind of the Millionaire: Findings from a National Survey on Wealth with Responsibility." New Directions for Philanthropic Fundraising **32**: 75-107.

Taylor, J., Webb, C. and Cameron, D. (2007). Charitable Giving by Wealthy People. London, HM Revenue and Customs.

Vickrey, W. (1962). One Economist's View of Philanthropy. Philanthropy and Public Policy. F. G. Dickenson. New York, National Bureau of Economic Research.

Walker, C. and Pharoah, C. (2002). A Lot of Give: Trends in Charitable Giving for the 21st Century. London, Hodder & Stoughton.