



## **Feature Article**

# **Recession and charities; the paradox of charitable opportunity?**

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### ***Charities exist to help in times of need, so how can they manage their own current situation?***

Evidence that charities are no more 'recession proof' than any other part of society is accumulating. Recent research shows that growth in donations from the public as well as earned income has slowed dramatically, with the income of many major charities barely keeping pace with inflation<sup>1</sup>. Charities exist to provide help in times of social need, so how can they manage their own current situation? Marianne Lewis of the University of Cincinnati Business School warns that the phrase "it's a paradox" has become a too-prominent cliché in debate on the leading managerial issues of our time.<sup>2</sup> Yet the security, if not sagacity, of a cliché is only too attractive as charities face their future in the socio-economic context of recession.

### ***The paradoxes of managing in a recession***

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.

Collaborative working will become more vital as a means of best using organisational resources just at the point where it is likely to decline as potential collaborators compete (or feel they are competing) for funding. Milder scenarios point to falling funding, as investment yields fall, particularly undermining innovative projects: they

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<sup>1</sup> Pharoah, C. (ed) (2008), Charity Market Monitor, Volume One : Fundraisers, Caritasdata and Cass Business School

<sup>2</sup> Lewis, M. W. (200), Exploring Paradox: Toward a More Comprehensive Guide. *The Academy of Management Review*, 25, 4, 760-776 .



perhaps indicate organisational merger, just at the point when fundraisers need to highlight organisational distinctiveness.

Volunteering becomes an increasingly critical organisational resource but is too costly to maintain or shrinks as economic and life-pressures crowd out volunteers' resources.

Living with paradox is uncomfortable. Charity managers may be exhorted on a number of fronts. Unsurprisingly, fundraising as a means of being recession-responsive, is always especially subject to a plethora of advice. Some of it is contradictory - for example, that charities should invest further in their known supporters and donors, whilst also making even more sure that new audiences know about their valuable (and now even more important) work.

Valuable advice on careful and open communications on the state of finances, on diversifying income sources and on revisiting core work is worth repeating. But these have little new to offer and may be only what organisations might prudently do anyway, in a sector where there are continually new entrants.

### ***Reputational risks***

Understanding and tracking – perhaps forestalling – possible downward shifts in company giving, the most widely-expected immediate fall-out from recession, will become even more complex than it is now. This is particularly the case if questions of charities' reputation are factored in. Charity CEOs may be right to “talk up their brand”, as evidenced by the latest findings of the NCVO's charity leaders' Confidence survey<sup>3</sup>. Here, however, the prospects for the sector generally are uncertain, though survey respondents' confidence in the future of their own organisations remains firm. It is in the area of reputation that the ambiguity of living with paradox applies in force. Charities which become early reporters of severe financial downturns may receive positive donor responses and bail-outs, but so leave less for others which avoid pessimistic (or realistic) reporting. Yet if charities are seen as “crying wolf”, and too early with declarations of problems, they may also fail to gain donor support. All in all,

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<sup>3</sup> NCVO (June 2008). Second Charity Confidence Survey  
[www.ncvo-vol.org.uk/research/index.asp?id=7720](http://www.ncvo-vol.org.uk/research/index.asp?id=7720)



it seems to us that “recession proofing” for most charities is not ultimately feasible; any more than most overcoats labelled ‘waterproof ‘ can be relied on in heavy downpours.

***Untoward times may need untoward responses***

Living with the ambiguities which paradoxes pose suggests a series of counter-intuitive possibilities, or simply new trends. For example, charities are constantly urged to demonstrate that they are not wasteful, and are in tune with the times and so even more attractive to donors. But many charities are already too familiar with the (rediscovered) fashion of make-do and mend. They will understandably balk at external admonitions to tighten their belts and get by on less, yet a recession may be precisely the time when they are encouraged to demonstrate just how many resources they need to perform effectively, including the ‘free resources’ they receive, so that donor information and challenge becomes the more stark. Susan Ellis, from a Canadian perspective, for example, asks whether rising fuel costs pose a crisis or an opportunity for volunteering.<sup>4</sup> She emphasises that most volunteers wait a long time before mentioning that their driving expenses are hurting them, and many just quietly drop off volunteering altogether because of this. Her argument is clear - the cost of volunteering must be made visible. So a recession might go a long way to finally dispelling the notion that charities’ achievements can ever be gained cheaply. Some charities may make the point differently, by increasing not decreasing the resources allocated to fundraising.

Charities’ reputations, as well as those of the corporate givers which cut back on giving, will also be under scrutiny. Managing any process of cutbacks and closure well, including timely information to staff and users, will be critical.

Assumptions that the very wealthy will continue to give may or may not be secure; whereas middle and lower level giving may turn out to be the more faithful (in the sense of committed and continuous) over time. Rationales for giving may also begin to change subtly – for example, as recession emphasises shifting *perceptions* as to who and who is not financially secure, and giving as thank-offering comes more overtly in to play. Common consent in the ‘recession proofing’ literature holds that

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<sup>4</sup> Susan J. Ellis (2008), Rising Cost of Gas: Crisis or Opportunity for Volunteering, Canadian Fundraiser enews, <http://www.canadianfundraiser.com/newsletter/>, June 15, 2008, article 10 of 14



planned giving in the sense of future gifts, whether as pledges over time, matching gifts, or bequests, will hold out during recession, albeit perhaps at lower levels. But how will charities react if pledges and promises cannot be met, and 'donor default' starts to appear more widespread. Consumer studies literature now studies consumer forgiveness of disappointing brands' performance, and subsequent willingness to make repeat purchases. If recession is marked by unwitting donor default, will we see some charities able and willing to offer donor forgiveness, and do so openly, as evidence of the sharing of hard times?

### ***Recession-proofing***

What recession-resistant, if not recession-proof, thinking, can be drawn from the key results of Charity Market Monitor 2008?<sup>5</sup> Some immediate fall-out in the shorter-term may be unavoidable, and charities may benefit from beginning to focus on the medium-term. The need for up-to-date, realistic and informed re-assessment of likely income from sources directly related to the market such as investments, some legacies and property is clear. Much, however, points to the central importance of the ongoing relationship between charities and their existing donors, and of targeting the most fruitful markets for new donors. Messages can be drawn from evidence presented in the Monitor on areas of existing fundraising strength. The high growth level in hospice fundraising, for example, show donors responding where they have immediate personal experience of local need in local contexts of provision. The persistent strength of faith-based giving provides constant evidence that commitment and social networks are powerful contexts for motivating giving. The stronger income position of charities with legacy incomes results from the element of 'future-proofing' which a legacy can bring. The success of events fundraising is a reminder that, perhaps particularly in a recession, donors value having fun when they give. Finally, the evidence that some charities are performing better than others in the current climate may be an indication that donors and funders are approaching their charitable expenditure in the same as other spending – with a careful eye on priorities, returns and value for money.

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<sup>5</sup> Pharoah, C. (ed) (2008) *ibid*.