
New Zealand Not-for-Profit Organisations and the Macroeconomic Environment:

A Historical Analysis of the Funding Inflow Mix of New Zealand Health Not-for-Profit Organisations over Different Macroeconomic Climates

Summary Report

November 2009

Shasa Halford

Acknowledgements:

I would firstly like to thank my supervisors, Rachel Baskerville and Carolyn Cordery, for their time, feedback and support during this research project. My sincere appreciation also goes to Intellectually Handicapped Children New Zealand, the Royal New Zealand Foundation of the Blind and the Royal New Zealand Plunket Society for agreeing to partake in this research, along with those organisational staff who consented to be interviewed as part of this project.

1. Executive Summary

New Zealand's 97,000 not-for-profit organisations play an important role within the lives of all New Zealand citizens; however their survival is entirely reliant upon the generosity of individuals, corporations, trusts, and the government. As New Zealand has faced a number of economic downturns between 1986 and 2008, both unique to New Zealand, and relating to the international markets in which it operates, this potentially imports uncertainty and unease into not-for-profit organisations, particularly in relation to revenue generation.

Whilst literature exploring the affect macroeconomic conditions have upon not-for-profit organisations exists within the American context, results are mixed, with some studies highlighting little or no affect being visible, whilst others identify severe pressures and funding shortages occurring. This research project aimed to conduct a comprehensive study of how three New Zealand health not-for-profit organisations (Intellectually Handicapped Children New Zealand, the Royal New Zealand Foundation of the Blind, and the Royal New Zealand Plunket Society) are affected by different macroeconomic conditions, and how this affects their funding levels and service offerings.

Results generated highlight:

- Economic downturns do appear to impact upon the funding not-for-profit organisations are able to generate;
- All three organisations viewed changes within their internal operating environment and the wider society as the main drivers behind funding inflow movements between 1986 and 2008;
- Mixed results were found surrounding the impact economic downturns have upon service offerings by not-for-profit organisations; and
- Increased service demand was not identified within all three organisations as the result of poor economic times, highlighting the need for further research to be conducted within this area.

2. Introduction

A recent Statistics New Zealand report identified 97,000 not-for-profit organisations to be in existence within New Zealand (Statistics New Zealand, 2007a). These organisations play an integral role within New Zealand's society, providing employment for over 200,000 full time equivalent staff (Ministry of Social Development & OCVS, 2008), along with contributing 4.9% towards New Zealand's GDP (*ibid.*). However, the true impact of this sector is on the individuals it serves. ANGOA (2009) notes the diverse range of activities provided by these organisations, from advocating for members interests, providing key services members need to live their everyday lives, and creating opportunities to improve the well being of members and greater New Zealand.

Despite their essential roles, not-for-profit organisations face continual uncertainty due to their reliance upon the generosity of others to fund their activities and maintain their operations long-term. As Sanders et al. (2008) notes, this funding comes from three key areas: philanthropic revenue, government revenue, and private fee revenue. Due to their high dependence upon the government and private giving, it would seem logical that in times of economic downturn not-for-profit organisations would face considerable uncertainty in relation to generating the level of funding they require, as these funding sources are facing their own struggles. American based studies investigating the impact past economic downturns have had upon not-for-profit organisations report varying and inconclusive results (McLean & Brouwer, 2009; Robert F. Sharpe & Company Inc., 1991; Salamon & O'Sullivan, 2004). Whilst all American economic downturns were linked to significant increases in stress for these organisations, some economic downturns have resulted in funding levels noticeably decreasing, importing increased pressures upon these organisations to adapt (McLean & Brouwer, 2009; Robert F. Sharpe & Company Inc., 1991); whilst other economic conditions identified funding as remaining at a relatively stable level despite external pressures impacting upon these organisations (Salamon & O'Sullivan, 2004).

Given the substantial reliance New Zealand citizens place upon not-for-profit organisations, it would seem reasonable to expect similar studies into revenue volatility during poor economic conditions to have been conducted within New Zealand, however little research exists within this area to date. In fact, whilst anecdotal evidence does suggest that organisations are becoming increasingly innovative in their methods of attracting giving (Volunteering New Zealand, OCVS, Philanthropy New Zealand, & IHC, 2008), little investigation into the drivers of the adoption of such techniques has occurred.

Aim and Purpose of this Research

This summary report highlights key findings from research aimed at exploring a range of different economic conditions facing New Zealand not-for-profit organisations between 1986 and 2008 in order to determine how different macroeconomic conditions impact upon the funding inflow mix of these organisations, along with how this funding affects the service offerings available to organisational members. As New Zealand not-for-profit organisations receive their funding on a different proportional basis to other countries (Sanders, et al., 2008), this investigation examines the affects of macroeconomic conditions upon not-for-profit funding from the New Zealand perspective.

An understanding of what factors drive revenue inflow fluctuations within New Zealand not-for-profit organisations will occur, highlighting the relative impact external macroeconomic conditions have upon these funding levels. Other organisational changes, both within the internal organisational

operating environment, along with changes in the external environment for these organisations, will also be investigated to determine whether these factors themselves explain revenue fluctuations identified.

Variations in revenue received by not-for-profit organisations are also likely to impact upon the service offerings these organisations are able to provide to their members, with entities aiming to structure services to obtain maximum member benefits (Anonymous, Jun 1, 2009; Bailey & Martin, 2006; Lant, 1991). Therefore, the effect different economic conditions have upon the types of services not-for-profit organisations provide to their members will also be investigated.

Results generated within this research form a platform for further research to be conducted within this area. Organisations operating within different subsectors may face diverse impacts as a result of changes in their operating environments and the macroeconomic conditions they face, indicating the need for future research to be conducted to gain a full appreciation of the New Zealand situation.

Research Design and Methodology

In this historical analysis of New Zealand not-for-profit organisational funding, initial document analysis of revenue data from Annual Reports for each organisation was undertaken. Information obtained was subsequently categorized into three revenue streams¹ enabling time series analysis of each revenue source and total revenue to be conducted for each organisation. Proportional revenue analysis was also carried out for each organisation, resulting in the identification of revenue trends between 1986 and 2008.

Interviews with organisational staff were subsequently conducted,² enabling motivations behind movements in each revenue source for all three organisations to be explored, along with identifying the impact macroeconomic conditions have upon three New Zealand not-for-profit organisations and their associated service offerings.

Ideally this research would be conducted so as to examine the affects macroeconomic conditions have upon all New Zealand not-for-profit organisations; however this was impractical given the time constraints being faced within this research project. As such, a focus upon the New Zealand health subsector has been established, with three not-for-profit organisations being investigated. These are:

- Intellectually Handicapped Children New Zealand;
- The Royal New Zealand Foundation of the Blind;
- The Royal New Zealand Plunket Society.

These three organisations have had long histories within New Zealand, experiencing a multitude of different macroeconomic conditions along with internal and external operating environment variations. They are also representative of other New Zealand health not-for-profit organisations due to their servicing of different groups of individuals, with varying service focuses being adopted.

Intellectually Handicapped Children New Zealand

Intellectually Handicapped Children New Zealand (“IHC”) focuses upon advocating for the rights, inclusion and welfare of all people with [intellectual disabilities](#) and supporting these individuals to live

¹ These revenue streams are government revenue, philanthropic revenue, and private fee revenue.

² Victoria University of Wellington Human Ethics Approval was granted in relation to these interviews.

satisfying lives in the community (IHC New Zealand, 2009b). Established in 1949, IHC provides services for members so as to ensure intellectually handicapped individuals can maintain the same quality of life as all New Zealanders (IHC New Zealand, 2009a). A 2006 Statistics New Zealand report identified that 17% of the total population had a disability, with intellectual disabilities making up a large proportion of these individuals (Statistics New Zealand, 2007b).

Royal New Zealand Foundation of the Blind

Similar to IHC, the Royal New Zealand Foundation of the Blind (“Foundation of the Blind”) aims to provide its members with services of a very specialized nature. The Foundation of the Blind is “New Zealand’s primary provider of vision-related habilitation and rehabilitation services to blind, deafblind and vision-impaired people,” (Royal New Zealand Foundation of the Blind, 2009a), spending over \$29.5 million on the provision of services and sustaining organisational operation during 2008 (Royal New Zealand Foundation of the Blind, 2008). This organisation has been in existence since 1890 and provides services to approximately 11,700 members, enabling these individuals to lead every-day lives despite vision difficulties they face (Royal New Zealand Foundation of the Blind, 2009b).

Royal New Zealand Plunket Society

Unlike the Foundation of the Blind and IHC, the Royal New Zealand Plunket Society (“Plunket”) has a direct impact upon not just a group of individuals, but rather the lives of nearly all New Zealanders. Since its establishment in 1907, Plunket has aimed to serve the needs of young families. Today this organisation provides core health services to children under the age of five, along with providing other parenting education and support services to their families (Royal New Zealand Plunket Society, 2008). During 2008, Plunket saw over 90% of all babies born within New Zealand (*ibid.*), illustrating the vital importance this organisation plays within the lives of many New Zealanders and New Zealand’s society.

Research Questions

Given the important role of the not-for-profit sector within New Zealand, along with uncertainty surrounding the impact different macroeconomic conditions have upon New Zealand not-for-profit organisations, and the success of coping mechanisms adopted when facing funding shortfalls; the research questions formulated to better investigate the effects and adaption techniques of this sector to different macroeconomic conditions were:

- Have macroeconomic conditions within New Zealand over the past two decades resulted in any changes to the funding inflow mix of New Zealand health not-for-profit organisations?³
- What organisational characteristics impact upon the funding inflow mix within New Zealand health not-for-profit organisations?
- How does funding availability affect service offerings in New Zealand health not-for-profit organisations?

Key findings generated from exploring these research questions are presented in Section 3.

³ Analysis will be conducted for the period 1986-2008.

3. Key Research Findings

As Table 1 highlights, IHC, the Foundation of the Blind and Plunket receive revenue from a multitude of different sources and utilise their own distinctive and varying titles for these revenue inflows.

Table 1: Revenue Sources within IHC, the Foundation of the Blind and Plunket

	Intellectually Handicapped Children New Zealand	Royal New Zealand Foundation of the Blind	Royal New Zealand Plunket Society
Government Revenue			
Government Contract Grants	✓		✓
Government Income			✓
Government Service Contracts		✓	
Government Subsidies		✓	
Transfers from Government Grants			✓
Philanthropy Revenue			
Donations	✓	✓	✓
Grants	✓		✓
Legacies / Bequests	✓	✓	✓
Special Fund Income			✓
Sponsorship	✓		✓
Other Fundraising Income	✓		
Volunteer Funded Additional Services			✓
Private Fee Revenue			
Branch Levies			✓
Donated Goods and Services from Branches			✓
Fees Charged for Services	✓		
Finance Income		✓	✓
Investment Income		✓	✓
Other Income			
• Centralized Accounting			✓
• Depreciation Allowances		✓	
• Education Fees			✓
• Gains on Births / (Deaths or Retirements)		✓	
• Grants Received from Subsidiary		✓	
• Income from Prior Years		✓	
• Increase in Advisory Committee Funds		✓	
• New Zealand Conference Surplus			✓
• Nurse Seminar Registrations			✓
• Other		✓	✓
• Trading Profits	✓	✓	
Property Income	✓	✓	✓
Rental Income	✓	✓	✓
Sale of Fixed Assets	✓	*	✓
Sundry Sales from Projects and Schemes	✓	✓	✓
Transfers of Income from Funds			✓

* This organisation sold a major asset within the analysis period, significantly altering revenue received from this source and potentially biasing results. In order to facilitate comprehensive understandings and long-term trend analysis, revenue generated via the sale of fixed assets has been excluded from revenue data for all years of investigation for this organisation.

Research Question One: Have Macroeconomic Conditions within New Zealand over the Past Two Decades Resulted in any Changes to the Funding Inflow Mix of New Zealand Health Not-For-Profit Organisations?

In understanding how different macroeconomic conditions have impacted upon IHC, the Foundation of the Blind and Plunket, analysis of Annual Report revenue data for each organisation was undertaken to identify revenue trends occurring between 1986 and 2008, with results presented within Figures 2 - 10. Each organisation's total revenue has increased over time, illustrating the growth in wealth of New Zealand, the affects of inflation, and the development of each not-for-profit organisation into well respected and streamlined entities. Outside of this common increase in revenue, each organisation is substantially different from the others in relation to the magnitude of revenue received and the sources of revenue each organisation is targeting. Disparity also exists within the revenue composition of each organisation, and movements in relation to this, overtime.

ANGOA (2009) and Sanders et al. (2008) highlight that within New Zealand, the approximate proportional mix of revenue sources for not-for-profit organisations is 25% government revenue, 20% philanthropy revenue, and 55% private fee revenue. However, as Table 2 illustrates, within IHC, the Foundation of the Blind and Plunket, revenue composition is substantially different to that of the New Zealand average. As all three organisations are large in size and have longstanding relationships within the community, these organisations are likely to be different to other New Zealand not-for-profit organisations, potentially explaining the different revenue structures they exhibit. As such, useful information is likely to be gained from further investigations into different subsectors so as to ensure a full appreciation of New Zealand not-for-profit organisations is developed.

Table 2: Revenue Composition between 1986 and 2008 for IHC, the Royal New Zealand Foundation of the Blind and Royal New Zealand Plunket Society

	Intellectually Handicapped Children New Zealand		Royal New Zealand Foundation of the Blind		Royal New Zealand Plunket Society	
	1986	2008	1986	2008	1986	2008
Government Revenue	47%	83%	41%	27%	87%	81%
Philanthropy Revenue	13%	3%	38%	58%	4%	9%
Private Fee Revenue	40%	14%	21%	15%	9%	10%

Trends identified within Table 2 are shown graphically and explained in greater detail below.

Figure 2: IHC Revenue Composition

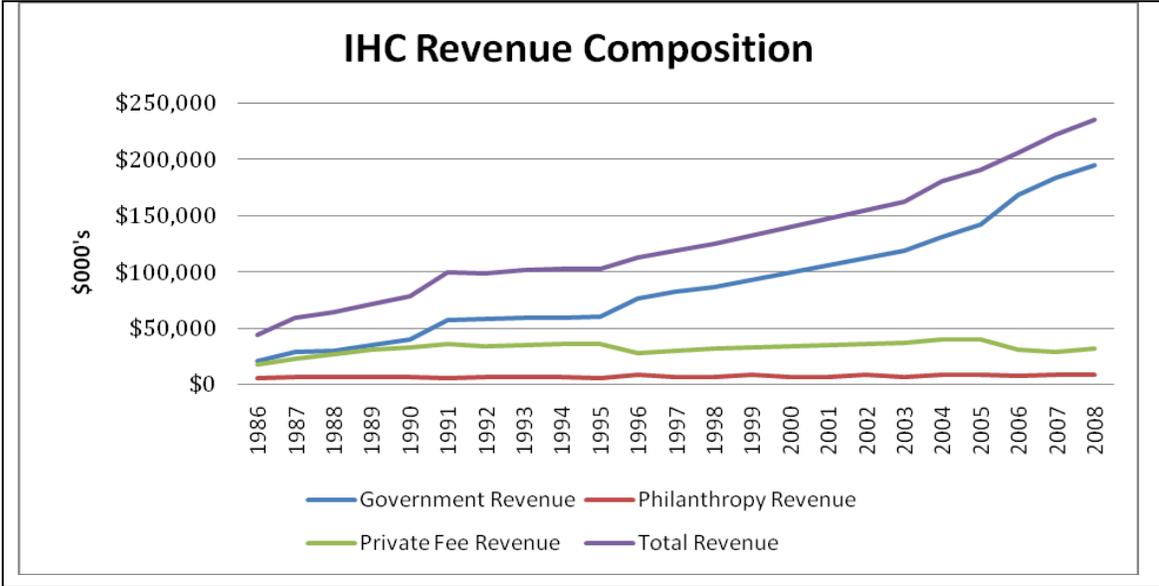


Figure 3: 1986 IHC Revenue Composition

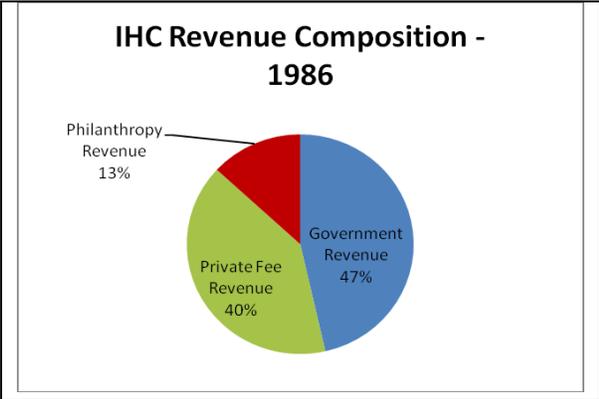
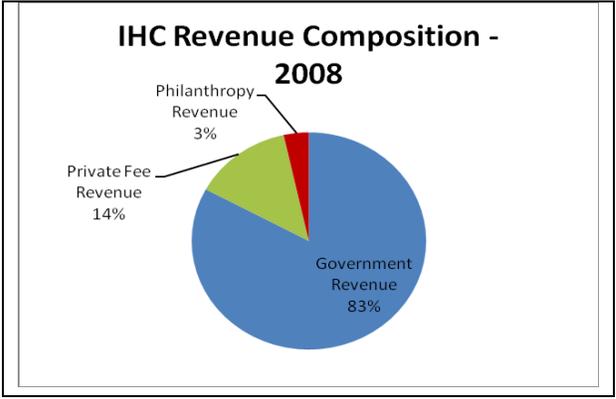


Figure 4: 2008 IHC Revenue Composition



IHC is unique in relation to size, receiving substantially greater revenues than both the Foundation of the Blind and Plunket. Total Income has grown from \$43,762,000 in 1986 to \$235,571,000 in 2008. This shows significant growth with more than a fivefold increase in total revenue occurring in just over 20 years. Great dependence is placed upon government revenue due largely to the contracted service relationship this organisation has with the government in providing services to New Zealanders with intellectual disabilities. This dependence can be evidenced via the increase in government revenue over this 22 year period, rising from just \$20,323,000 (or 47% of total revenue) within 1986, to \$195,265,000 (or 83% of total revenue) within 2008. Private fee revenue was recorded at \$17,686,000 in 1986 and \$32,169,000 in 2008; while philanthropic revenue remained relatively stable, contributing \$5,753,000 towards total revenue collected in 1986, and \$8,137,000 during 2008. Inflation has steadily reduced the value of these revenue streams, illustrated within Figure 3 and 4 by private fee revenue falling from 40% of total revenue collected in 1986, to just 14% in 2008; whilst philanthropic revenue has also decreased proportionally from 13% of total revenue in 1986 to merely 3% in 2008.

Figure 5: Royal New Zealand Foundation of the Blind Revenue Composition⁴

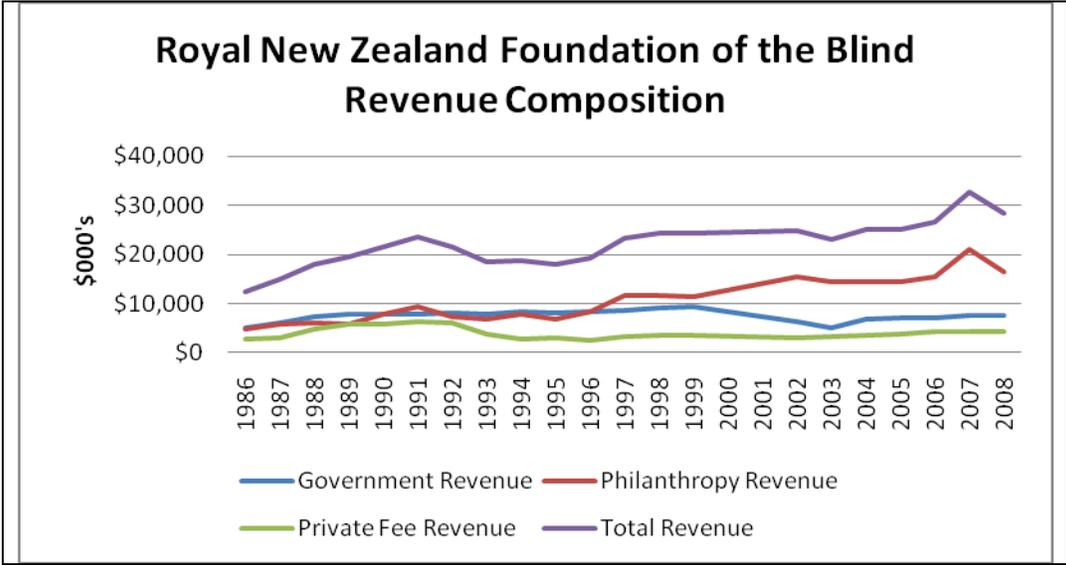


Figure 6: 1986 Royal New Zealand Foundation of the Blind Revenue Composition

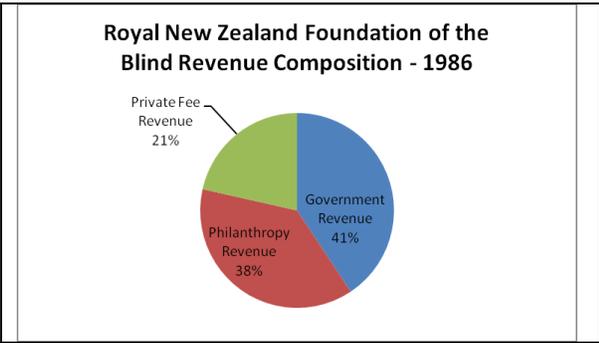
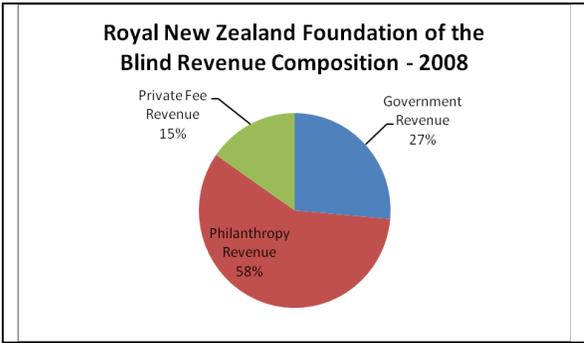


Figure 7: 2008 Royal New Zealand Foundation of the Blind Revenue Composition



The Foundation of the Blind has faced greater revenue fluctuations over this 22 year period than IHC or Plunket, experiencing total revenue rise overall from \$12,494,000 in 1986 to \$28,309,000 in 2008, whilst also experiencing periods of decline. A great dependence upon philanthropic giving can be seen, and this dependence is continuing to grow, increasing from 38% of total revenue (or \$4,730,000) in 1986 to 58% of total revenue (or \$16,488,000) in 2008. The importance of this revenue source is reflected in how fluctuating philanthropy revenue appears to explain the majority of movement within total revenue over this time period. Government revenue also comprises a large proportion of the overall revenue received by this organisation; however this revenue source is decreasing proportionately overtime, from 41% of total revenue (\$5,079,000) in 1986 to just 27% of total revenue (\$7,479,000) in 2008. This large level of government revenue shows the Foundation of the Blind’s reliance upon the government to help fund the delivery of a number of its core services, emphasizing that philanthropic giving alone cannot fund all projects undertaken. Private fee revenue has been maintained at a relatively steady dollar value (\$2,685,000 in 1986 to \$4,342,000 in 2008) and has become proportionally less of a contributor to total income overtime.

⁴ Asset sales have not been included within private fee revenue due to a large spike occurring within 1996.

Figure 8: Royal New Zealand Plunket Society Revenue Composition

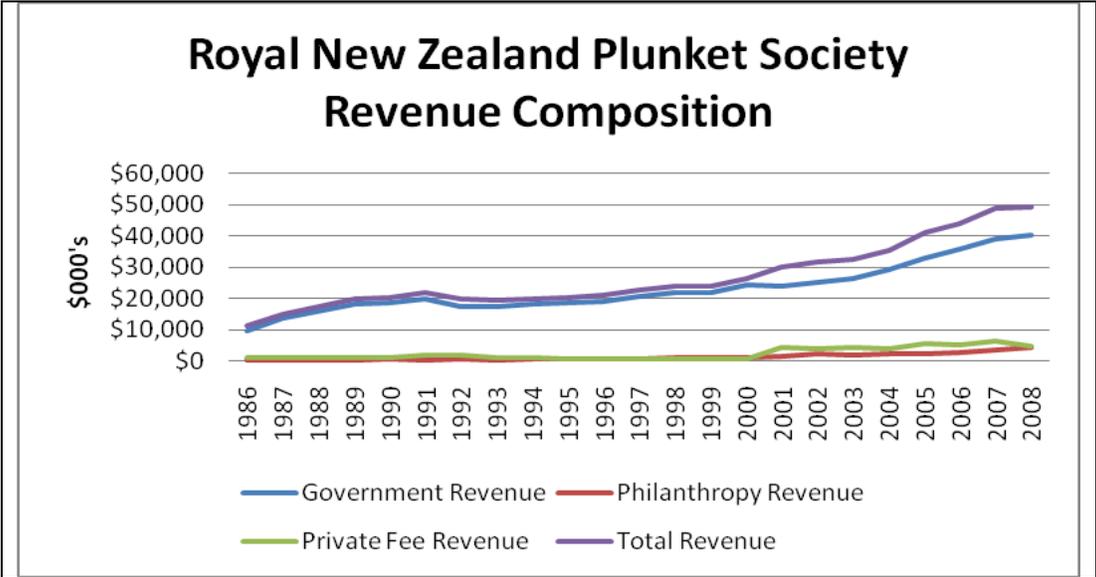


Figure 9: 1986 Royal New Zealand Plunket Society Revenue Composition

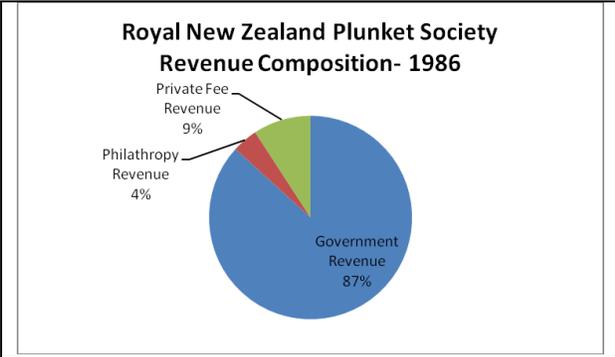
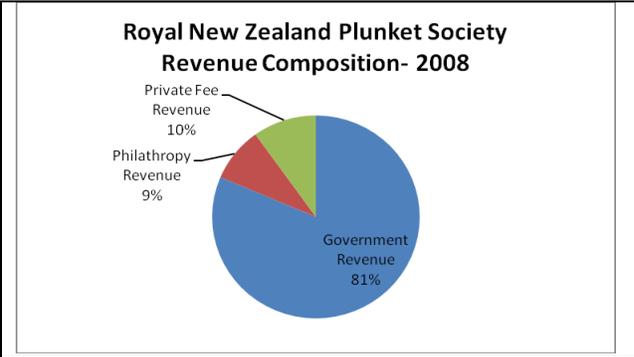


Figure 10: 2008 Royal New Zealand Plunket Society Revenue Composition



Similarities can be seen within the trends of both IHC and Plunket, highlighting the common organisational approach and nature of operations between these organisations. Plunket, like IHC, relies heavily upon government revenue, and this is continuing to increase over time, rising fourfold during this 22 year period, from \$9,833,000 in 1986 to \$40,165,000 within 2008. Proportionally, this revenue has decreased from 87% if total revenue in 1986 to 81% in 2008, illustrating an increased reliance upon other revenue sources overtime. Whilst these other forms of revenue are actively being sourced by Plunket, these still form only a very small component of total revenue in comparison to the opportunities government contracting provides for the delivery of organisational services. Private fee revenue has increased in dollar terms (generating \$1,042,000 revenue within 1986 and \$4,886,000 revenue within 2008), and also as a percentage of total income (9% in 1986 to 10% in 2008) during this period; with philanthropy revenue also growing from \$460,000 (4% of total revenue) in 1986 to \$4,292,000 (9% of total revenue) in 2008, further highlighting the organisational focus upon generating revenue from other non-governmental sources.

Macroeconomic Conditions

With revenue fluctuations exhibited within IHC, the Foundation of the Blind and Plunket, exploration of New Zealand's macroeconomic conditions between 1986 and 2008 is needed to establish what link, if any, exists between identified revenue movements and not-for-profit organisational operating conditions. A review of the rate of change in New Zealand Gross Domestic Product and New Zealand's Unemployment Rate were utilised as proxies for the state of New Zealand's economy between 1986 and 2008. Within New Zealand, the years 1991, 1998, 2000 and also recently in 2008, are periods of severe economic downturn that potentially could have affected revenue collection by IHC, the Foundation of the Blind and Plunket.

In the early 1990's, economic conditions within New Zealand were particularly bleak, with annual growth negative and unemployment climbing (Dalziel & Lattimore, 2001). Both the Foundation of the Blind and Plunket reported falling total revenue in the early 1990's, with the Foundation of the Blind reporting a 21% drop in total revenue between 1991 and 1993. As such, it appears that this set of economic conditions have impacted upon all three not-for-profit organisations under investigation, however the affects of these conditions differ substantially among these entities. A second significant drop in GDP arose around 1998 coinciding with the Asian financial crisis and New Zealand droughts (Dalziel & Lattimore, 2001; The Treasury, 2009). However, analysis of revenue inflows for IHC, the Foundation of the Blind and Plunket notes no substantial changes to revenue received during around this time period, suggesting this economic downturn has not affected these three organisations to the same extent as the 1991 – 1993 economic downturn.

Around the year 2001 New Zealand experienced another weaker period in its economic history (The Treasury, 2009). Whilst this economic downturn did not significantly effect unemployment, or total revenue received by IHC, total revenue received by the Foundation of the Blind and Plunket slowed; indicating the possibility of the government redirecting funds during this period, resulting in stress and uncertainty within these organisations. The current economic crisis was already taking its toll upon New Zealand's economy during 2008, with GDP continuing to fall, and unemployment expected to rise (The Treasury, 2009). The effects of this downturn are possibly not identified within this analysis, however it should be noted that the Foundation of the Blind reported a striking drop in total revenue during 2008 (from \$20,961,000 total revenue collected in 2007, to \$16,488,000 total revenue collected in 2008), possibly capturing the initial effects of this economic downturn, and the restrictions it places upon the giving from individuals, corporations, trusts and the government.

Initial document analysis suggests that IHC, the Foundation of the Blind and Plunket are all impacted by the macroeconomic conditions they face. All three organisations acknowledged that poor economic times had impacted upon them, increasing organisational stress and highlighting the need for strong relationships with funders. Interestingly, relatively few organisational staff interviewed linked their changing revenue composition over time to the changing macroeconomic conditions they were facing, drawing instead upon a number of other factors influencing their organisations.

The Effect of Different Macroeconomic Conditions upon Philanthropy Revenue

IHC, the Foundation of the Blind and Plunket all identified philanthropy revenue as being one of the greatest hit areas in poor economic times; however its impact upon each organisation varied in relation to the dependence they placed upon revenue gathered via this source.

In support of prior literature (ASB Community Trust, 2009; McConnon & Delevingne, Oct 6, 2008; Ministry of Social Development & OCVS, 2008), IHC, the Foundation of the Blind and Plunket identified

poor economic conditions as severely impacting upon income received from grant and foundation entities, with one organisation noting that “the single largest impact of a recession on fundraising is that grant and foundation revenue has essentially dried up because people are not getting their interest on their investment,” (I3). Whilst grant and foundation income was actively sourced by all three organisations, the large size of these entities resulted in income of this nature comprising only a small component of total philanthropic giving and overall revenue received, enabling these organisations to utilize other revenue streams as a buffer to revenue volatility

In line with a prior American based study (Robert F. Sharpe & Company Inc., 1991), IHC, the Foundation of the Blind and Plunket all reported private giving as being affected by poor economic conditions. However, one entity noted that large, loyal supporters of their organisations aided in insulating them against revenue drops in this area, stating that “I think people have become a little bit more selective and only give to some organisations; but the loyalty, the brand recognition, and the reputation of [many] years in New Zealand communities is what is important,” (I3). Conversely, another organisation noted that other factors, such as recent drops in volunteer numbers, could potentially exaggerate the affect of decreasing private giving occurring within the greater society.

Legacies form another important component of philanthropic giving for IHC, the Foundation of the Blind and Plunket. Post World War II, it was noted by Sharpe (1991) that steadily increasing philanthropic giving was received by not-for-profit organisations as families became wealthier as economic recovery occurred. This is consistent with one entity in this study suggesting a relationship exists between New Zealanders economic climate and amount received in legacies, stating that “as New Zealand improves [economically] overtime... you will see that reflected in its legacies too,” (I4). However, two bodies highlighted that regardless of this relationship, legacies are volatile in nature, and so whilst movements in philanthropic giving may be linked to some changes in legacies received by these organisations, legacy income is unpredictable in nature and therefore does not directly reflect the economic conditions being faced.

Corporate giving, utilized by all three organisations in funding their non-core activities, appears to be affected by the prevailing economic conditions, with one organisation noting that “organisations are reviewing just how much they sponsor and what they can afford to do, and [are] pulling back,” (I1). Not only is existing corporate sponsorship affected, but all three not-for-profit organisations are also finding new corporate sponsorship hard to secure. As such, it appears that corporate giving is very susceptible to poor economic conditions.

The Effect of Different Macroeconomic Conditions upon Government Revenue

IHC, the Foundation of the Blind and Plunket all view government revenue as exceptionally important to their operations, supporting the high and increasing level of income generated via this source as illustrated within Figures 2 - 10. Similar to that of philanthropy revenue, revenue of this nature does not appear to be immune from the affects of economic downturns, with one organisation stating that “it’s a constant challenge to secure adequate government funding, and this is also the case in a recession,” (I3).

It was noted that “... governments are limited by their budgets that they announce every year,” and must balance priorities with the limited supply of money available for funding all initiatives. All three not-for-profit organisations are involved in continual negotiations surrounding the adequacy of the government revenue they receive. During poor economic times this revenue negotiation becomes even more important as it becomes increasingly difficult to justify additional requests for government

revenue as the government must “look at the whole economy and get that fixed first,” (I4). This results in IHC, the Foundation of the Blind and Plunket all focusing upon cost cutting and efficiency in order to ensure core services demanded by members are able to continually be provided despite the unavailability of increasing government funding. It appears that the nature of government revenue provides a key explanation behind movement in this revenue source for all three organisations, providing a link between economic conditions and the level of government revenue received.

The commercially orientated nature of IHC, the Foundation of the Blind and Plunket operations also has a role to play in relation to the level of governmental revenue received. All three organisations face competition in relation to their continued supply of services, leading to a further inability for these organisations to continually ask for new or increasing contractual revenue from the government. This restriction illustrates another side of the relationship between the economic condition being faced and the level of government revenue received by all three not-for-profit organisations, emphasizing that despite the economic conditions being faced, no additional revenue from this source is likely to be received.

The Effect of Different Macroeconomic Conditions upon Private Fee Revenue

A major component of private fee revenue for all three organisations is income generated from investing, with IHC, the Foundation of the Blind and Plunket all holding investments in various fixed assets, primarily properties, which grew in value between 1986 and 2008. However, a common feature of economic downturns is an accompanied drop in investment valuations. These conditions lead to decreasing income-generating potential from investments, highlighting that no revenue source appears to fully insulate not-for-profit organisations from poor economic conditions within New Zealand. Decreasing investment income during poor economic times helps to explain the volatility of this income stream. However, due to the diverse nature of private fee revenue (Sanders, et al., 2008), as highlighted within Table 1, it is unlikely that this variation will provide the only explanation for changes that can be noted.

One entity is currently looking to expand their private fee revenue as “we have the expertise to work with people who are not eligible for our free service, but they still want the service so we can charge for it,” (I4). Charging fees for services is already occurring within another organisation, offering the ability to insulate against volatile revenue sources, potentially helping to smooth changing philanthropy revenue and government revenue, creating a more stable operating environment (Weisbrod, 1998).

IHC, the Foundation of the Blind and Plunket all experienced volatility within their revenue inflows as a result of changing economic conditions, helping to explain revenue movements reported within Figures 2- 10. However, it appears that all three organisations were able to insulate against much of this volatility via the establishment of sound revenue relationships, the utilization of prior historical experience, and other internal organisational changes undertaken. As such, this goes against American not-for-profit studies undertaken by Sharpe (1991) and GuideStar (2009) which found that not-for-profit organisations faced considerable hardship as a result of various economic downturns, dramatically affected their ability to continue operations. Rather, these three organisations showed that despite the fiscal stress they were facing, they “managed to cope with it successfully,” (Salamon & O’Sullivan, 2004, p. 1).

Research Question Two: What Organisational Characteristics Impact upon the Funding Inflow Mix within New Zealand Health Not-For-Profit Organisations?

Whilst IHC, the Foundation of the Blind and Plunket experienced fluctuating revenues between 1986 and 2008, as shown within Figures 2 - 10, these organisations did not view macroeconomic conditions as providing the sole reason behind such movements. Instead, all three organisations focused upon changing internal organisational characteristics, along with variations within wider environment, as the driving factors behind revenue changes experienced between 1986 and 2008.

Motivations behind Changes in Philanthropy Revenue

Fundraising income is utilized by all three organisations in achieving social missions and organisational objectives that may not be funded via core government contracts. It was noted by one organisation that whilst they had increased their effectiveness as a fundraiser over this 22 year period, they were facing increased competition today as “there are many other charities that are as strong, or stronger, on the fundraising side,” (I4). The sheer number of not-for-profit organisations seeking a share of the limited private giving funding available has led to further pressures upon organisations to adapt fundraising techniques so as to avoid decreasing revenue of this nature. One method utilised was the introduction of international fundraising techniques which are changing the way fundraising is being approached; whilst another is the adoption of an “efficiency focus” within revenue generation.

The changing nature of New Zealand’s society is also having an impact upon philanthropic giving. “... [T]he lack of cash economy [is having an impact], when calling and knocking on peoples doors they do not have the cash to give you, so you are not getting as much that way,” (I2). Changing spending patterns were also linked to generational changes by one entity, highlighting that perhaps future generations may not be as grateful for the services they are provided, and may not give as generously as a result.

All three organisations noted that there is a “continual awareness” that fundraising income will always be volatile in nature, resulting in this revenue funding flexible or project-based work. As such, movements within revenue sourced from philanthropic giving provided no great surprise to any of the organisational members interviewed, with all three organisations adopting a range of coping mechanisms that maintain stability within this area.

Motivations behind Changes in Government Revenue

Government revenue forms the backbone of core service provision within IHC, the Foundation of the Blind and Plunket. All three organisations rely heavily upon contractual relationships in generating their government funding, supporting the view of Newberry & Pallot (2004) and Wilson et al. (2001) that the implementation of New Public Management within New Zealand led to increasing government contractual relationships in fulfilling the aim of achieving governmental cost savings. All three organisations note that these relationships are typically long-term in nature, enhancing revenue inflow stability which may explain the stability of this revenue source between 1986 and 2008 within Figures 2 - 10. This predictability also aids in planning and budgeting, potentially creating more stable revenue inflows for these organisations in the future.

Governmental revenue is often fixed in nature, due to the multitude of other organisations each Ministry, and the overall Government, must support in ensuring a wide variety of services are available for New Zealand citizens. As such, all three entities noted that a sharp rise in government revenue over

time is unrealistic; rather, a cost of living adjustment or inflationary increase is often all that is expected, leading to government revenue being anticipated to remain relatively stable overtime. This appears to be in conflict with Gazley (2008) who linked government contracting relationships to increased negotiating power being gained by not-for-profit organisations.

The ever-changing makeup of political parties also appears to impact upon the level of government revenue received by not-for-profit organisations. Whilst all governments are committed to providing funding for services offered by these three organisations, two entities noted that the way in which their funding is determined has often changed with movements in political power. Smaller Governmental contracts may also be affected by changing priorities within Government Ministries; when particular programs of work no longer align with the targets or priorities of these agencies, they will have reduced incentives to support and fund these initiatives. This logically leads to decreasing revenue being available to fund specific initiatives within not-for-profit organisations, decreasing their ability to carry out these projects, and lowering total governmental revenue received. Drops within this income are only small in nature and therefore, it is not expected these changes account for all fluctuations noted within Figures 2 - 10.

Motivations behind Changes in Private Fee Revenue

Carpenter & Feroz (2001) highlight the role of institutional engraving, stating that “organisations tend to maintain certain practices adopted at the time that the organisation was founded,” (Carpenter & Feroz, 2001, p. 566). Initial document analysis supports this view; highlighting that IHC, the Foundation of the Blind and Plunket have predominantly depended upon government revenue and philanthropic giving to fund their services in the past. However, recently things have started to change as these organisations are looking past the industry norm and assessing what will maximize total revenue within their organisations. Diversification into private fee revenue areas by these organisations creates a diversified funding base, potentially reducing income volatility particularly during economic downturns. This is in support of Froelich (1999), who states that diversification is often driven out of growing uncertainty and resource scarcity, enabling organisations to gain greater predictability over their revenue generations (Hodge & Piccolo, 2005).

However, every revenue source exhibits an inherent degree of uncertainty and volatility (Froelich, 1999), and whilst private fee income comprises only a small proportion of total revenue for IHC, the Foundation of the Blind and Plunket, fluctuations within revenue source still prove important to the level of total revenue that is able to be generated. Organisational staff identified fluctuations within this revenue source being predominantly linked to changing income from investments with one organisation stating that they saw an “increase in our investment income because overtime we have been growing it,” (I4); whilst another entity allows for budget deficits “as long as in the 5 year scheme of things it all comes out in the wash,” (I2). These approaches allow for increased investment to be made, both interest bearing and infrastructure related, that enhance organisational revenue generating ability within the future.

All three revenue sources within IHC, the Foundation of the Blind, and Plunket have undergone a number of internal organisational pressures between 1986 and 2008. These pressures, along with varying external environmental conditions, have produced some volatile movement within revenue inflows for these organisations, promoting the use of creative thinking in determining how to increase revenue stability within the future, with all three organisations adopting a number of initiatives within a variety of areas to address this. Overall, the focus is upon promoting relationships with funders, and

continued awareness of opportunities available to the organisation. As one organisation put it “...sometimes there is funding for [us], sometimes there isn’t. So it’s being aware,” (I1).

Research Question Three: How Does Funding Availability Affect Service Offerings in New Zealand Health Not-For-Profit Organisations?

With a variety of internal and external factors impacting upon the revenue generation within IHC, the Foundation of the Blind and Plunket, uncertainty and potential revenue volatility arises. This volatility may result in the need to reconsider what services are on offer when faced with funding shortages, requiring prioritization and continual project evaluation to continually occur within not-for-profit organisations.

The Effect of Poor Economic Conditions upon Services Provided

All three not-for-profit organisations have a number of governmental contracts whose completion must take first priority during poor economic times as the competitive nature of these organisation’s activities means poor contractual performance may result in future contract loss. Government contracts enable the provision of a number of core services for these organisations, so maintaining this revenue long-term is vital to the organisation.

Other, non-core services are funded out of philanthropic giving, smaller government contracts, or private fee income, and are therefore more susceptible to changing income levels. Maintaining these services is often viewed as highly important to not-for-profit organisations as they enable core organisational mission and reputation to be maintained. One entity noted that all projects and services that are funded out of non-committed government revenue are flexible in nature and susceptible to the fundraising ability of the organisation. Another entity furthered this view, stating that there is a continual awareness within this area, “[b]ut I think in a recession it is just as added impetus,” (I3). Not-for-profit organisations will always want to provide more services than they can fund, so continual planning ensures that service offerings are prioritized, which becomes particularly relevant during economic downturns as lower revenue means fewer services may be able to be provided.

In line with the views of Bailey & Martin (2006) and Anonymous (Jun 1, 2009), it was also suggested by one organisation that “in poor economic times you are much more inclined to look at your cost structures,” (I3). Whilst cost cutting is important to organisational survival, these organisations must also ensure they continue investing in their organisational infrastructure so as to enable revenue growth within the future. Therefore, prioritizing within not-for-profit organisations is not just around which services to provide, but also around ensuring that funding of infrastructure continues also. Each organisation investigated appears to be adopting different cost cutting approaches in the face of the current economic downturn, illustrating the varying methodologies and organisational priorities not-for-profit organisations take on. Ultimately, as Lant (1991) and Bailey & Martin (2006) highlight, prioritisation within these three organisations aims to maximise the benefits they can provide to their members.

IHC, the Foundation of the Blind and Plunket are all aware that funding received is not guaranteed and may face significant obstacles within poor economic times. However, despite funding shortages, the commitment of volunteers, the prioritizing of initiatives offered, and the movement of staff within organisations appears to enable key services to be maintained, regardless of the volatile nature of their revenue inflows.

The Effect of Poor Economic Conditions upon Service Demand

Whilst prior literature suggests that economic downturns would drive increased demand for services as more people utilise the support available to them (New Zealand Council of Christian Social Services, 2009; Radio New Zealand National, 2009), varied effects were reported by IHC, the Foundation of the Blind and Plunket within this area. One organisation reported not seeing any trend in relation to increased service demand to date, nor could think of any similar trends occurring in the past. However, noticeably different results were reported by another entity in which stress caused increased demand for some services relating to member interaction and support. Overall, it appears that government contracted services fulfil the core requirements of members within IHC, the Foundation of the Blind and Plunket, resulting in only small and isolated areas of increased service demand during poor economic times. This movement in service demand is also influenced by the specialized nature of the organisations under investigation, with both IHC and the Foundation of the Blind providing targeted services to its members. It was noted by one interviewee that other sectors, such as the mental health subsector are more “susceptible to social and economic circumstances,” highlighting the potential benefits to be gained from further investigations considering a wider group of New Zealand not-for-profit entities. This upholds the New Zealand Council of Christian Social Services (2009) view stating that “It is clear that the recession is making life more difficult for many people and placing an even greater strain on helping agencies,” (New Zealand Council of Christian Social Services, 2009, p. 1).

All three organisations highlighted that their long history and survival of several poor economic cycles affects the breadth of coping mechanisms they are currently employing. Historical experience during prior economic downturns enables these organisations to understand what coping mechanisms work best for them, and the key events and indicators to watch for in ensuring funding and service delivery can be maximised. Typically, IHC, the Foundation of the Blind and Plunket all focus upon efficiency and cost cutting when facing decreasing revenue available for service provision. Recognizing income fluctuations within both good and bad economic climates also enables these organisations to adopt other proven coping mechanisms when environmental conditions become particularly volatile. However, no definitive link could be found between the economic conditions being faced and service demand. In fact, it appears that service demand may be activity and organisational specific.

4. Discussion and Conclusion

Prior literature suggested that poor economic conditions will impact upon the funding not-for-profit organisations receive, as entities giving to these organisations will be facing financial difficulties themselves. As such, this research aimed to explore how different macroeconomic conditions impact upon New Zealand not-for-profit organisations operating within the health subsector, investigating trends within revenues received by these organisations between 1986 and 2008. Document analysis, utilising archival Annual Report data, enabled initial revenue trends within IHC, the Foundation of the Blind and Plunket to be identified. These were then explored within interviews with members from each of the three organisations, enabling internal organisational changes and variations within the external operating environments of these organisations to be explored in conjunction with changing economic conditions. Results highlight the resilience of New Zealand not-for-profit organisations to varying economic conditions, along with the associated reliance New Zealanders place upon the services offered by these organisations during varying economic conditions.

In New Zealand there is a strong awareness of the importance the not-for-profit sector plays within the lives of everyday citizens. However, little New Zealand literature has explored this importance by examining what affect macroeconomic conditions have upon these organisations, the services they can afford to provide, and the level of funding they ultimately receive. American-based studies conclude that organisations are affected in varying ways, depending upon the specific economic downturn they are facing (McLean & Brouwer, 2009; Robert F. Sharpe & Company Inc., 1991; Salamon & O'Sullivan, 2004). These varying results, along with the unique economic conditions facing New Zealand not-for-profit organisations, indicate the need to investigate how a range of economic conditions within New Zealand impact upon the funding received by these organisations, and funding mechanisms they adopt.

Prior literature indicates that different sources of revenue received by New Zealand not-for-profit organisations exhibit different volatility within changing economic conditions. For example, the Ministry of Social Development and OCVS (2008) along with Business Week (Oct 6, 2008) note that poor economic conditions are typically associated with deteriorating financial markets, leading to increased revenue volatility from trust and foundation income and corporations as they are hit hard by these changes. However, government revenue is typically committed, with contracts extending over multiple years, reducing volatility from this revenue source. As such, economic downturns are expected to affect some revenue sources more than others, leading to varying proportional revenue compositions overtime. Lower revenues generated by not-for-profit organisations are expected to impact upon the service offerings these organisations are able to provide to members, as fewer dollars means less initiatives are able to be supplied. Therefore prioritisation of initiatives may become the norm within these organisations (Volunteering New Zealand, OCVS, & Philanthropy New Zealand, 2009).

Froelich (1999) and Macedo & Pinho (2004) note that all revenue sources contain both advantages and disadvantages leading to evaluations of resource composition being required by all not-for-profit organisations. Therefore, whilst revenue received by New Zealand not-for-profit organisations is likely to be influenced by changing macroeconomic conditions, other factors such as organisational changes and the development of new revenue sources will also affect the level and composition of revenue received by these organisations. Hodge & Piccolo (2005) suggest that revenue diversification can lead to greater stability and predictability of revenue collection overtime for these organisations. This may lead

to the organisations under investigation becoming insulated from many effects associated with economic downturns as some revenue sources may grow during poor economic periods.

Initial document analysis enabled revenue trends between 1986 and 2008 for IHC, the Foundation of the Blind and Plunket to be identified. These were subsequently compared to economic indicators so as to establish linkages between revenue movements and the prevailing economic climate these organisations were facing. Interestingly, relatively few variations within revenue received by these organisations between 1986 and 2008 were noted to coincide with changing economic conditions being faced. Whilst some trends were identifiable, other substantial movements within revenue flows did not appear to relate to macroeconomic conditions at all. This goes against the studies by Sharpe (1991) and GuideStar (2009) in identifying American not-for-profit organisations to be severely affected by economic downturns, particularly in regards to the revenues they receive.

Interviews with organisational staff from IHC, the Foundation and Plunket enabled clarification around the causes behind such movements to be better understood. All three organisations acknowledged that poor economic times had impacted upon their organisations; however they did not link this to dramatic changes in their revenue inflows. Rather, internal organisational changes, and the varying external environment in which they operate, were viewed as significantly affecting the funding received by these organisations.

Mixed results were reported by all three organisations in relation to how different macroeconomic conditions impact upon the service offerings provided and the associated demand for services by members. Due to the specialised nature of IHC, the Foundation of the Blind and Plunket, service demand was identified as remaining relatively constant over time, regardless of the prevailing economic climate. Benefits could be gained in exploring how other New Zealand not-for-profit organisations within different subsectors are impacted by varying economic conditions, as increased service demand is equally likely in other areas.

It is hoped that this study will stimulate interest within the New Zealand not-for-profit sector, particularly regarding what factors influence funding within these organisations. There is much room for further research considering these issues to be undertaken in the future, enhancing our understanding of this vital sector and potentially aiding organisations involved with it.

5. References

- ANGOA (2009). *Good Intentions: An assessment of the Statement of Government Intentions for an Improved Community - Government Relationship*.
- Anonymous (Jun 1, 2009). Charities learn lessons from the corporate sector. *Financial Times*,
- ASB Community Trust (2009). ASB Community Trust announces grants budget, from <http://www.asbcommunitytrust.org.nz/media-press-releases.html>
- Bailey, C., & Martin, K. (2006). *Getting to "No"*: Booz & Company.
- Carpenter, V., & Feroz, E. (2001). Institutional theory and accounting rule choice: an analysis of four US state governments' decisions to adopt generally accepted accounting principles. *Accounting, Organisations and Society*, 26, 565-596.
- Dalziel, P., & Lattimore, R. (2001). *The New Zealand Macroeconomy: A Briefing on the Reforms and the Legacy* (4 ed.). Melbourne, Australia: Oxford University Press.
- Froelich, K. (1999). Diversification of Revenue Strategies: Evolving Resource Dependence in Nonprofit Organisations. *Nonprofit and Voluntary Sector Quarterly*, 28(3), 246-268.
- Gazley, B. (2008). Beyond the Contract: The Scope and Nature of Informal Government-Nonprofit Partnerships. *Public Administration Review*, 68(1), 141-154.
- Hodge, M., & Piccolo, R. (2005). Funding Source, Board Involvement Techniques, and Financial Vulnerability in Nonprofit Organisations: A Test of Resource Dependence. *Nonprofit Management & Leadership*, 16(2), 171-190.
- IHC New Zealand (2009a). Our History Retrieved September 10, 2009
- IHC New Zealand (2009b). Understanding Intellectual Disability Retrieved September 10, 2009
- Lant, J. (1991). How to Do Well When Times Are Bad. *Nonprofit World*, 9(6), 27-29.
- Macedo, I. M., & Pinho, J. C. (2004). The Relationship Between Resource Dependence and Market Orientation. *European Journal of Marketing*, 40(5/6), 533-553.
- McConnon, A., & Delevingne, L. (Oct 6, 2008). Charities Go Begging. *Business Week*,
- McLean, C., & Brouwer, C. (2009). The Effect of the Economy on the Nonprofit Sector. GuideStar.
- Ministry of Social Development, & OCVS (2008). *Briefing to the Incoming Minister*.
- New Zealand Council of Christian Social Services (2009). *Vulnerability Report*.
- Newberry, S., & Pallot, J. (2004). Freedom or coercion? NPM incentives in New Zealand central government departments. *Management Accounting Research*, 15, 247-266.
- Radio New Zealand National (Writer) (2009). Insight on Radio NZ: How the recession is affecting the not-for-profit sector
- Robert F. Sharpe & Company Inc. (1991). *Philanthropy in Uncertain Times: A Retrospective, 1931 - 1949*.
- Royal New Zealand Foundation of the Blind (2009a). About Us Retrieved September 10, 2009
- Royal New Zealand Foundation of the Blind (2009b). Foundation at a Glance, September 10, 2009
- Salamon, L., & O'Sullivan, R. (2004). *Stressed but Coping: Nonprofit Organisations and the Current Fiscal Crisis*.
- Sanders, J., O'Brien, M., Tennant, M., Sokolowski, W., & Salamon, L. (2008). *The New Zealand Non-Profit Sector in Comparative Perspective*.
- Statistics New Zealand (2007a). *Counting Non-profit Institutions in New Zealand*.
- Statistics New Zealand (2007b). *Disability Survey: 2006*.
- The Treasury (2009). The Economy of New Zealand: Overview, from <http://www.treasury.govt.nz/economy/overview/2009/05.htm>
- Volunteering New Zealand, OCVS, & Philanthropy New Zealand (2009). *What do we know about generosity in New Zealand?*

- Volunteering New Zealand, OCVS, Philanthropy New Zealand, & IHC (2008). *How do New Zealanders give?*.
- Weisbrod, B. A. (1998). The nonprofit mission and its financing. *Journal of Policy Analysis and Management*, 17, 165-174.
- Wilson, C., Hendricks, A. K., Smithies, R., Knowledge Management Group, & Ministry of Social Development (2001). "Lady Bountiful" and the "Virtual Volunteers": The Changing Face of Social Service Volunteering. *Social Policy Journal of New Zealand*(17), 124-146.