



Centre for Charitable Giving
and Philanthropy



TSRC Briefing Paper 38

This is a joint paper between the Centre for Charitable Giving and Philanthropy and the Third Sector Research Centre

Are big charities becoming increasingly dominant? Tracking charitable income growth 1997-2008 by initial size

Dr David Clifford, Third Sector Research Centre, University of Southampton and Peter Backus, Centre for Charitable Giving and Philanthropy

There are two main reasons why we might expect big charities' income to have grown more than small ones:

1. In terms of statutory income, there has been an increase in contract-based funding from the 1990s onwards. This is particularly relevant for voluntary organisations working in the social services field: their role in delivering public services has expanded - and increasingly in the context of a market-based environment in which organisations bid for specific service delivery contracts, rather than receiving unconditional grant income. But, has the effect of these changes been different for different social service organisations? As the changes were taking place, commentators predicted that, while the increased income from statutory sources would increase total aggregate income for these organisations as a whole, larger organisations would be better placed to benefit than those that were smaller. Smaller organisations, whose main activity may have been advocacy rather than service delivery, might not have either the 'desire', 'capacity' or 'skills' to enter into contracts.

2. In terms of private income, big charities may be more able to invest in fundraising - to devote resources to the three key tasks of donor identification, attraction and retention.

However, thus far, there has been very little empirical research to examine whether big charities are indeed becoming more dominant. Specifically, while it is clear that aggregate income across the charitable sector has been increasing (for example,

Kane et al. (2009), we do not know how this income growth has been distributed. *Which charities have benefited most - have the smaller charities managed to grow more than the initially big, or have the initially larger charities become more dominant? This paper analyses longitudinal data on charities' incomes from 1997 to 2008 to answer this question for the first time.*

We draw a distinction between two different 'theses', both predicting that big charities would grow more than smaller ones but differing in what they consider as 'big'. One uses 'big' to refer to the preferential growth of established organisations employing paid staff; the other uses 'big' to refer specifically to the preferential growth of a smaller number of very large charities 'with a turnover in excess of £10 million' (Duncan Smith 2005). The former thesis refers to 'professionalisation', the latter thesis to 'Tescoisation'. This is a distinction to which we will return.

Approach

This paper is part of a two-paper series on trends in charitable income concentration. In the parallel paper we examine 'cross-sectional' trends - is there a tendency for the biggest charities, as defined in a particular year, to account for a growing share of total charity income over the analysis period (see Backus and Clifford 2010)? This paper takes a 'longitudinal' perspective, which defines charity size at the beginning of the period and tracks individual charities' subsequent growth rates.

Data

We have longitudinal data on charities' headline income and expenditure from 1997 to 2008 in England and Wales. This provides a valuable opportunity to track the growth of individual charities over the period, and relate this growth to their initial size. All data are originally from annual returns or annual updates completed by charities for the Charity Commission (CC). We obtain the records from two sources - data from 1997 to 2001 from the National Council of Voluntary Organisations (NCVO) and data from 2002 to 2008 from GuideStar - and link individual charity records across the period using the CC number identifier. Since we present a three-year moving average, we present trends for 1998-2007 based on data for 1997-2008. Details of the criteria for inclusion of organisations in the analysis are provided in the full working paper.

The data have been collected for regulatory, rather than research purposes - so unsurprisingly required some preparation before use. This is described in an Appendix to the full working paper. The data were adjusted for inflation using the Retail Price Index so that, when examining growth rates in charitable income, we are examining real growth rates. Note, therefore, that when income in 1998 is used to describe charitable size at the beginning of the analysis period, this is expressed in 2008 prices.

First, we examine all general charities on the register irrespective of the activity in which they are involved (number N in our panel = 41,732). This is a useful starting point. However, the body of organisations on the CC register is diverse. The trends for the sector as a whole are likely to conflate different trends in different charitable subsectors, providing limited insight into the processes underlying these trends. Therefore, in the second stage we present trends for social service organisations specifically (N=8,940). This is a field in which there is particular expectation that the initially large charities have grown more over the analysis period. We use the International Classification of Nonprofit Organisations (ICNPO) to identify subsectors (Salamon and Anheier 1992, 1996). This classifies non-profit organisations into groups based on their primary economic activity.

Method

The main idea is to graphically summarise the relationship between a measure of initial size - charitable income in 1998 (on the x-axis), and subsequent charitable growth between 1998 and 2007 (on the y-axis). We call this plot (illustrated in graphs below) the 'income mobility profile', following similar graphs in the individual income inequality literature (Van Kerm, 2009).

We define income growth (y) as 'relative' growth (income in 2007/income in 1998): if a particular charity experiences no change in real income over the analysis period, $y=1$; for a real increase in income, y is greater than 1; for a real decrease, y is less than 1. **Note that if all charities grew at the same relative growth rate, there would be no change in levels of charitable income concentration (the share of the 'biggest' charities, however defined, would stay the same).**

Importantly, income growth is very variable according to initial income (for example, lots of small charities grew in size, and lots declined, over the analysis period). If we plotted relative growth against initial income for each individual organisation, the graph would look a mess! Therefore, instead we examine how the *distribution* of relative growth varies according to initial size. We do this using a method called local quantile regression (details are provided in the full working paper). This allows us to produce, for example, a 'median income mobility profile' showing how the 'median' income growth varies according to initial size - representing a particular substantive focus on how a 'typical' (middle-performing) charity of a particular size in 1998 has grown over the period.

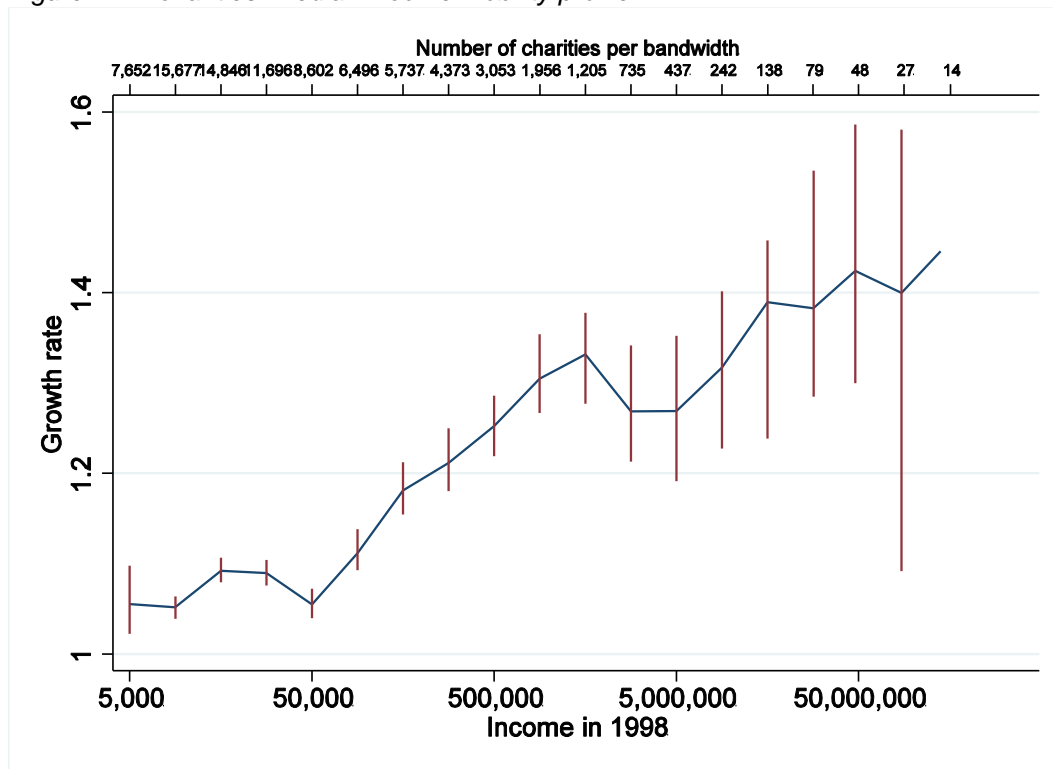
Note that the question 'which charity has grown more between 1998 and 2007?' only makes sense if we have values for income at both time points. Therefore, the results here only apply to organisations which existed throughout the analysis period. The income mobility profiles presented in the paper should be interpreted in this light; they relate income growth to initial size, conditional on that organisation surviving throughout the analysis period.

Results and discussion

All charities

The 'median income mobility profile' illustrates differences in the median relative income growth around different points in the initial size distribution (Figure 1).

Figure 1: All charities: median income mobility profile



Most clearly it shows, for organisations above an initial size of £50k, an increasing median growth rate between 1998 and 2007 with increasing initial size in 1998. This is consistent with the 'professionalisation' thesis - which would predict the preferential growth of established organisations of sufficient size to employ paid staff.

The profile is also consistent with the Tescoisation thesis, which would predict that it is the very biggest charities which have grown the most. However, note the less smooth nature of the profile, and the wide 'confidence interval', at higher values of initial size. This reflects the much smaller number of organisations in these neighbourhoods and therefore the high variability of the estimate depending on which organisations are included in the analysis. In terms of assessing the Tescoisation thesis, this places particular importance on the appropriate definition of a population of interest and of an appropriate analysis period - which particular organisations, and which particular years, are considered will have an important influence on the nature of the profile at the top of the initial size distribution.

Social service charities

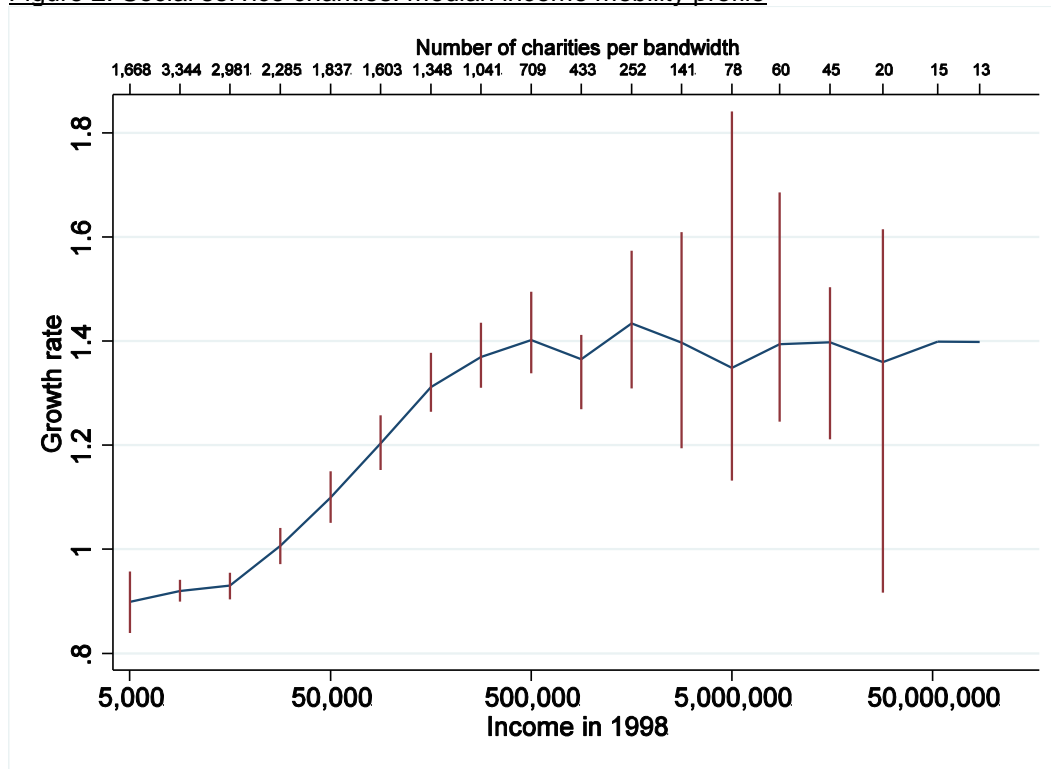
Next we restrict analysis specifically to social service charities (ICNPO categories 4100, 4200, 4300).

The median income mobility profile (Figure 2) shows, for organisations above an initial size of £15k, an increasing median relative growth rate between 1998 and 2007 with increasing initial size in 1998. The median growth rate continues to increase as initial size increases to £500k. This is consistent with the 'professionalisation' thesis.

However, beyond this point, there is no evidence that the median growth rate continues to increase based on increasing initial size. Again, note the wide 'confidence intervals' at the higher values of initial size, highlighting the importance of appropriately defining the population of interest.

Nevertheless, for this specific set of organisations, this profile provides no evidence to support the Tescoisation thesis: the median income growth of the initially very large charities is higher than that of the initially small, but similar to those of initially intermediate size (for example, in the neighbourhood around £500k). Overall, it is clear that for this population of social service organisations the initially established organisations in general, but not the very largest in particular, have benefited most from the aggregate increase in income.

Figure 2: Social service charities: median income mobility profile



Limitations

These longitudinal results provide a useful complement to the cross-sectional picture (Backus and Clifford, 2010), which do not provide any insight into how income growth is related to initial size.

However, it is important to recognise the sensitivity of the results to the appropriate definition of a relevant population of organisations. Further, this analysis is limited in its temporal scope, and we are not able to offer insight into the dynamics of income growth before our analysis period. Therefore, it is difficult to assess whether or not the documented pattern of income growth by initial size in the social services subsector, for example, is also typical of earlier periods. While the income growth pattern is consistent with the benefits of large size in an era of formalisation of statutory funding, it is unclear the extent to which this formalisation merely served to reinforce existing patterns of income growth. More generally, we now know that social service charities

above a certain size tended to grow more than smaller organisations, but this need not entail that the reason for their preferential growth was related to their size.

References

Peter Backus and David Clifford. Trends in the concentration of income among charities, Centre for Charitable Giving / Third Sector Research Centre working paper 39, 2010.

Iain Duncan Smith. Breaking the big state big charity duopoly. A speech to Third Sector magazine's Britain's most admired charities awards, 2005. URL <http://www.iainduncansmith.org>.

David Kane, Jenny Clark, Sarah Lesniewski, Jenny Wilton, Belinda Pratten, and Karl Wilding. UK Civil Society Almanac 2009, National Council of Voluntary Organisations (NCVO), 2009.

Philippe Van Kerm. Income mobility profiles. *Economics Letters*, 102(2):93-95, 2009.

This paper is part of the Third Sector Research Centre Briefing Paper Series, in conjunction with Centre for Charitable Giving and Philanthropy. See www.tsrc.ac.uk for more details and a copy of Working Paper 38.

TSRC and CGAP are producing a series of joint publications where there are synergies in our work. In particular where our research themes and activities overlap and where we are working jointly to address the agendas of both Centres. We believe that this research is of direct interest to both Centres stakeholders.

The support of the Economic and Social Research Council (ESRC), the Office for Civil Society (OCS) and the Barrow Cadbury UK Trust is gratefully acknowledged.