

## Conference Paper

# Financial Sustainability of Non-profit Organizations in Tourist Destinations - Differences Between Coastal and Continental Destinations

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**ORCID:**Lorena Dadić Fruk: <http://orcid.org/>**Abstract**

The lack of funds needed to carry out activities is often a limiting factor to the development of non-profit organizations (NPOs) and a threat to their survival. To be financially sustainable, NPOs must seek to increase the share of their own earned income while reducing the share of public funding (donations) in their income structure. By operating in developed tourist regions and undertaking activities in tourism, NPOs can take advantage of an array of opportunities to generate their own income. The aim of this paper was to determine whether there are any differences in financial sustainability between NPOs operating in the most developed coastal tourist destinations of Croatia and NPOs operating in the country's most developed continental tourist destinations. The paper also aimed to identify which NPOs show a higher level of financial sustainability, that is, which NPOs have a higher share of own earned income relative to the share of donations and grants. To this end, an online survey was conducted of NPO Assembly members in the most developed coastal and continental tourist destinations (based on tourist traffic in the past 10 years) in Croatia. The results indicated that there are statistically significant differences between NPOs operating in coastal tourist destinations and NPOs operating in continental tourist destinations with regard to the amount of income generated by active self-funding (selling products and providing services) and the amount of income from other self-funding (income from membership fees and assets).

**Keywords:** non-profit organizations, financial sustainability, tourism, self-funding

## 1. Introduction

Today, one of the greatest challenges of non-profit organizations (NPOs) refers to their fundraising ability. Unlike for-profit organizations, NPOs are not commercially active, making it more difficult for them to operate because they must secure from other sources the funding needed to carry out their work. NPOs can raise funds through a number of self-financing activities (income from collecting memberships fees and assets, and by the selling of products and services) and through donations and grants (donations from citizens and enterprises, public funds from the national budget and/or budgets of local and regional self-government units). Despite various fundraising opportunities, NPOs

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mostly rely on donations and grants, which account for approximately 30% to 40% of their overall income structure [5].

Recently, however, public funding has become an increasingly unstable source of income that could jeopardise the financial sustainability of NPOs in the long run. For many authors, financial sustainability refers to a financial resources that an NPO possesses in the long period and which enables NPOs to conduct activities and fulfil its mission [5, 10, 22]. Some authors argue that a non-profit organization is financially viable if in the income structure has a more than one source of income and is capable to increase the revenues of self-funding activities [2, 5, 19]. In other words, organizations capable of ensure income through the variety of commercial activities, such as sales of products and providing services or income from membership fees, show less dependent public funds as traditional sources of funding [4, 11–13]. [1] sums it up by claiming that an NPO is sustainable providing it has a number of income sources and providing those sources contribute equally to increasing total income. According to [9] an NPO is financially viable if it has developed performance evaluation indicators in detail, has a larger share of self-funding activities in income structure, if its solvent and liquid and if its members and volunteers are satisfied.

Based on the above, this paper holds the view that an NPO will be more sustainable if in the income structure has larger share of self-funding activities relative to public funds and donations. As stated earlier, NPOs can raise funds by collecting membership fees, by generating income from assets and selling products and services. The extant literature, however, does not make a distinction between self-funding activities. Activities such as selling of products and providing services can be viewed as “active self-funding activities”, because those activities require greater effort from the organization and more substantial use of organizational, material and financial resources. In contrast, activities that generating income by collecting membership fees or using assets can be viewed as “other self-funding activities”, since those activities requires less resources and commitment from organization.

Many definitions can be used to depict the income-raising activities of NPOs (such as commercial activities, economic activities, non-profit entrepreneurship, social entrepreneurship). For all of those definition is common the fact that self-funding activities must not results in generating profit for organization and its members, neither for third persons.

To increase the share of own earned income, NPOs are turning to the market to sell their products and services, thus becoming true entrepreneurs. Such NPOs seeking to resolve an existing social issue in an entrepreneurial way can be referred to as social entrepreneurs.

There has been some controversy in the literature regarding the matter of NPOs' commercial activity. Some authors warn of the danger of NPOs becoming overly focused on generating as much income as possible, which could ultimately lead them to lose the social mission founded as well as to lose their identity and legitimacy [3, 11, 23].

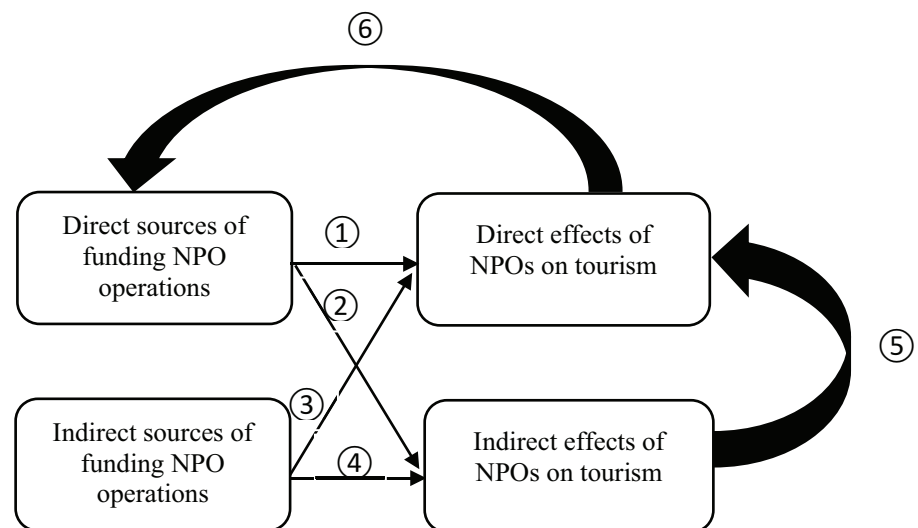
Nonetheless, most authors tend to agree that the commercial activity of NPOs can help to ensure a higher level of sustainability, thus making NPOs more independent on public funds. In addition, commercial activities can ensure better visibility of organization

what consequently can affect a larger number of donors and members of the organization [6, 12, 15, 17–19, 21]. Even if commercial activity does not generate a significant level of income for an NPO, it can still help to reinforce the NPO's image and visibility.

## 2. Financial Sustainability of Non-profit Organizations through Activities in tourism

NPOs operating in tourism developed areas have an entire array of opportunities for generating income, either directly or indirectly, through tourism and, thus, are able to tourism directly and indirectly.

The interdependence of NPOs' sources of funding and NPOs' impacts on tourism is presented below.



**Figure 1:** Relationship between NPOs' direct and indirect impacts on tourism and NPOs' direct and indirect sources of funding through tourism. (Source: Authors' own construction.)

Direct sources of NPO funding include NPO income from sales of the NPOs' own products (indigenous food products and non-food products) and services (workshops, courses, guided tours, etc.). The selling of own products and services are NPO commercial activities by which NPOs can generate income directly, thus self-funding their work. Through such activities NPOs directly impact tourism (1) by enriching the tourist destination's offering. A more diverse and abundant offering of products and services in a destination will help to increase tourist spending, consequently increasing tourist traffic and ultimately increasing overall tourism-generated income. Direct sources of NPO funding can also indirectly impact tourism (2). Namely, by carrying out economic activities that are not directly linked with (but are in no way contrary to) their missions, NPOs can generate income to finance those missions, thus exerting an indirect impact on tourism.

Indirect sources of NPO funding (public funds) refer to income from tourist tax and other income of tourist boards and local self-government units. Based on public tenders and carefully developed criteria, indirect sources of funding can be used to finance the projects and activity of those NPOs whose work has a direct (3) or indirect (4) impact on tourism.

Furthermore, indirect impacts on tourism can, in return, affect the direct impacts of NPOs (5). Indirect impacts on tourism refer to creating the conditions and infrastructure needed to ensure a more pleasant stay for guests in a destination (for example, activities that include land and sea clean-up operations, the revitalization of neglected areas and sites, signposting and maintaining routes and trails, etc.) and enhance the appeal of the destination, thus boosting the growth of tourist traffic (arrivals and overnights), the personal spending of tourists and, consequently, increasing the amount of overall tourism-generated income and reinforcing the direct effects of NPOs on tourism.

The direct effects of NPOs, in return, affect the direct sources of funding (6). In other words, increases in tourist traffic and in the personal spending of tourists have a positive effect on the sales of NPO products and service, directly generating income for the NPOs to finance their work.

Based on the above, it is clear that NPOs operating in developed tourist regions have at their disposal numerous opportunities to self-fund their activities and, thus, strengthen their financial sustainability.

A study conducted in the coastal destinations of Croatia shows that NPOs that carry out activities directly impacting tourism, recognize tourism as a means of improving their financial sustainability and are aware that such activities enable them to increase the share of income generated by self-funding activities while reducing the share of income from donations and grants [7].

It can be assumed that NPOs operating in developed tourist regions are aware of the ways in which they can increase their income and strengthen their financial sustainability by conducting activities in tourism. There is, however, a large discrepancy between tourism development in Croatia's coastal region and its continental region. In 2019, a total of 18.8 million guests visited coastal Croatia, but only 965.2 thousand visited continental Croatia (a mere 5% of the total number of guests in coastal Croatia). The number of visitors to continental Croatia does not include data pertaining to Zagreb, the capital city of Croatia, which recorded 1.1 million tourist arrivals in 2019 [14].

This paper aims to establish whether there is a statistically significant difference in the financial sustainability of NPOs operating in the coastal tourist destinations of Croatia and NPOs operating in the country's continental tourist destinations.

Accordingly, the following hypothesis was formulated:

There is a statistically significant difference between NPOs operating in coastal tourist destinations and NPOs operating in continental tourist destinations with respect to financial sustainability.

Three auxiliary hypotheses were derived from the central hypothesis:

H1: There is a statistically significant difference between NPOs in coastal tourist destinations and NPOs in continental tourist destinations with respect to the amount of income generated by active self-funding.

H2: There is a statistically significant difference between NPOs in coastal tourist destinations and NPOs in continental tourist destinations with respect to the amount of income generated by other types of self-funding.

H3: There is a statistically significant difference between NPOs in coastal tourist destinations and NPOs in continental tourist destinations with respect to the amount of income from donations and grants.

### 3. Methodology and results

Primary research using a structured questionnaire was conducted with aim to test the hypotheses. The basic research group comprises all NPOs that are registered in one of the fields of activity according to [20](culture and art, sport, hobby activities, environmental and nature protection, health protection, sustainable development), have a direct or indirect effect on tourism, and are registered in the most developed coastal and continental tourist destinations (in terms of tourist arrivals and nights in the past ten years according to official data from the Croatian bureau of Statistics).

Accordingly, research was conducted in two phases:

1. Research in the most developed coastal tourist destinations (Medulin, Poreč, Rovinj, Dubrovnik) was carried out in May and June 2018.
2. Research in the most developed continental tourist destinations (Zagreb, Osijek, Varaždin, Karlovac, Slunj, Tuhelj, Krapinske Toplice, Stubičke Toplice, Velika Gorica) was carried out from November 2019 to March 2020.

For the purpose of research, a stratified random sample was used, from which a simple random sample was selected, comprising 40% of the basic group (with the exception of the City of Zagreb, the sample of which comprised 4% of the basic group). The sample numbered 756 NPOs. Research was conducted online, by sending emails with links to an online questionnaire. By the end of March 2020, A total of 389 questionnaires were returned 263 from NPOs operating in continental destinations and 153 from NPOs operating in coastal destinations). Table 1 shows the questionnaires distribution.

The questionnaire had three parts. In the first part the respondents were asked about basic data about the NPOs (field of activity, number of members, headquarters, year of foundation, is there a membership fee, what activities directly and indirectly affecting tourism were undertaken in the previous years and how often). The second part used one variable and 18 items to measure the attitudes of NPOs regarding tourism, while nine variables were used in the last part to collect data regarding the NPOs' funding (amount of income in the previous year, income structure with regard to funding sources, problems linked to NPO funding, assessment of NPOs financial situation and situation of the entire non-profit sector, assessment of donor relationships, and frequency of using

TABLE 1: Distribution of questionnaires.

	Tourist destination	Basic group (NPOs directly/indirectly affecting tourism)	Sample (40 % of the basic group)	Number of properly filled-in questionnaires	Response rate (%)
<b>Coastal destinations</b>	Dubrovnik	250	100	75	75 %
	Rovinj	74	30	22	73 %
	Poreč	82	33	25	76 %
	Medulin	104	42	31	74 %
<b>Continental destinations</b>	Zagreb*	5,500	170 (3%)	39	23%
	Osijek	154	110	60	55%
	Varaždin	126	90	48	53%
	Karlovac	84	60	37	62%
	Slunj	24	17	10	58%
	Tuhelj	21	15	5	33%
	Krapinske Toplice	21	15	5	33%
	Stubičke Toplice	17	12	3	25%
	Velika Gorica	89	62	29	47%
		<b>TOTAL</b>	<b>510</b>	<b>756</b>	<b>389</b>

\*The City of Zagreb sample accounts for 4% of the basic group, as the number of NPOs in Zagreb is extremely higher than in the other tourist destinations. In fact, more NPOs are registered in Zagreb than all together in the listed destinations.

various fundraising methods). Given the aim of this paper and to test the hypothesis, the basic data (first part of questionnaire) and financial data (third part of questionnaire) are analysed.

### 3.1. Descriptive statistics of variables relating to NPO funding

To obtain a general idea of the financial situation of NPOs operating in coastal and continental tourist destinations in Croatia, a descriptive analysis of variables relating to the amount, structure and flow of income is given below.

The above graphs show that the income of fully 47.67% of NPOs (or 125 NPOs) operating in continental destinations is mostly less than 1,333 EUR. On the other hand, the income of 50% of NPOs (or 77 NPOs) operating in coastal destinations mostly ranges from 1,333 EUR to 13,333 EUR. With regard to income exceeding 30,666 EUR, the situation is similar in both groups, with 11.8% of NPOs in continental destinations and 12.41% of NPOs in coastal destinations having an income over 30,666 EUR.

NPO Assembly members were asked to report the income structure of their NPO in the previous year. Results are presented in Figure 4 and Figure 5.

The graphs show that public funds (grants from state, local or county budgets) are the predominant source of NPO funding in both coastal tourist destinations and continental

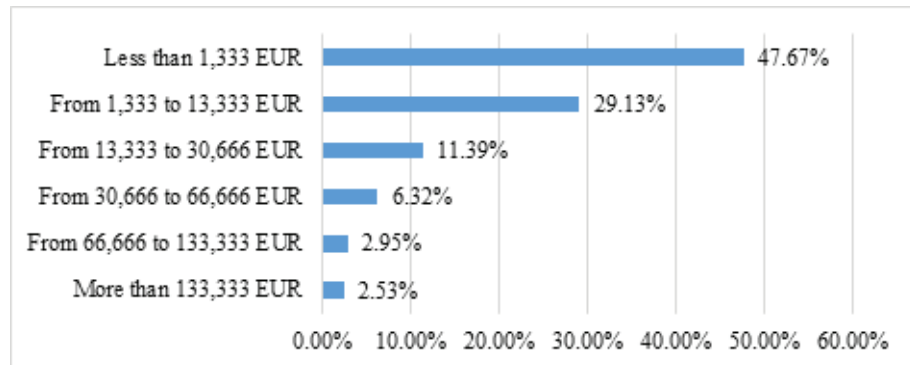


Figure 2: Income of NPOs in continental tourist destinations, in 2019. (Source: Authors' own calculation.)

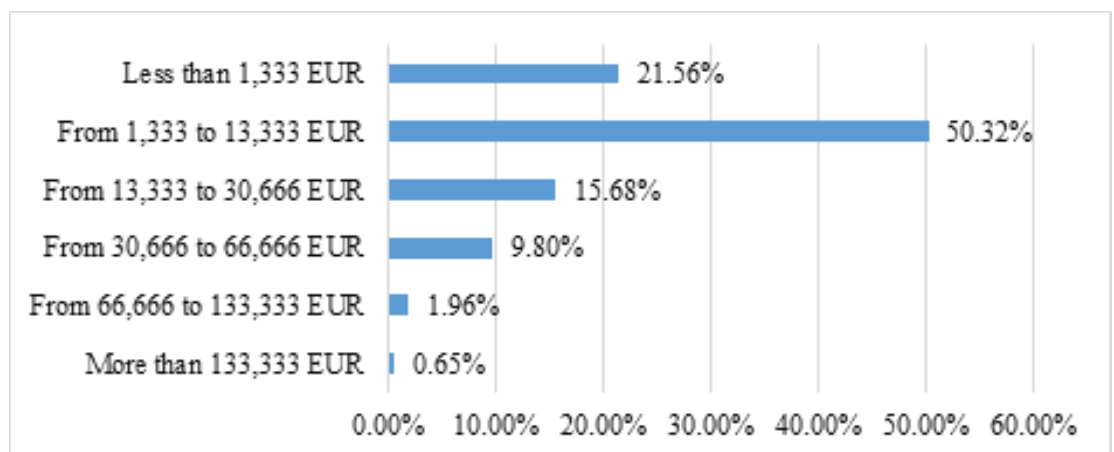


Figure 3: Income of NPOs in coastal tourist destinations, in 2018. (Source: Authors' own calculation.)

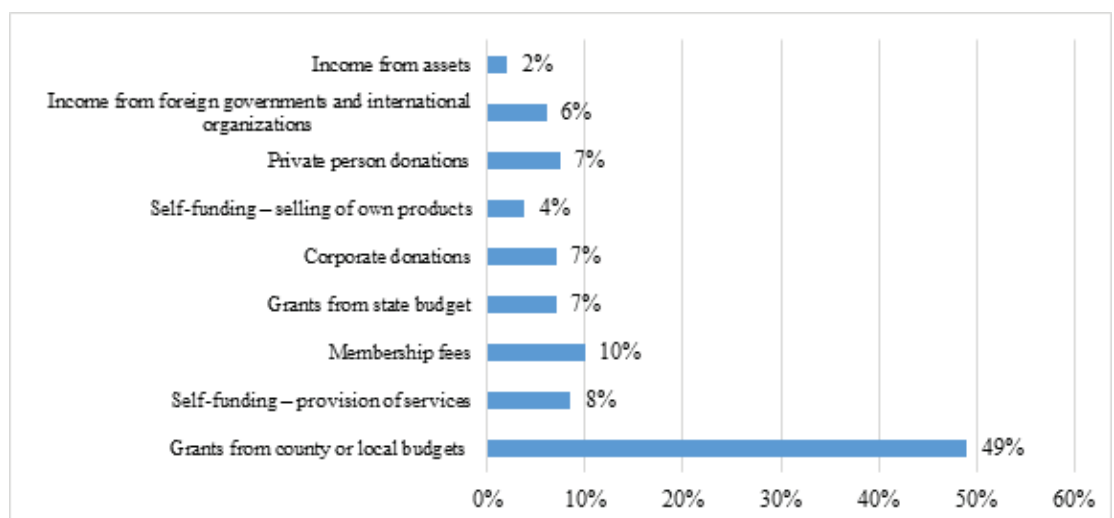
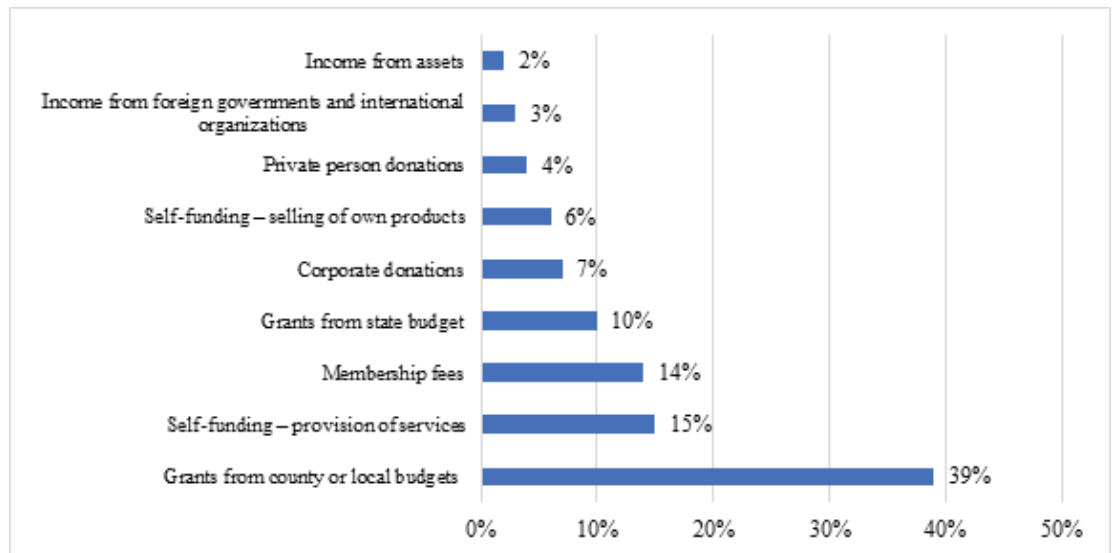


Figure 4: Income structure of NPOs operating in continental tourist destinations, in 2019. (Source: Authors' own calculation.)

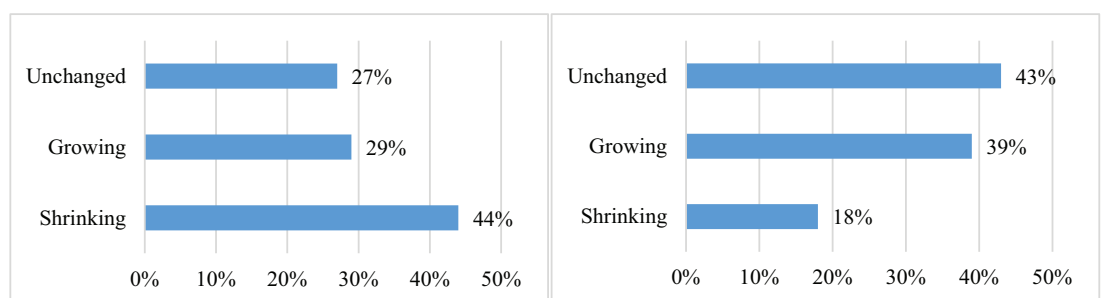
tourist destinations. Although it is evident that NPOs depend largely on public funds, the situation is slightly better for NPOs operating in coastal destinations as the share of public donations in their income structure is 10 percentage points less than that of NPOs operating in continental destinations. With regard to active self-financing income



**Figure 5:** Income structure of NPOs operating in coastal tourist destinations, in 2018. (Source: Authors’ own calculation.)

which encompasses selling own products and services), coastal NPOs are again in a better position than continental NPOs, with this source of funding accounting for 21% in coastal NPOs and 12% in continental NPOs. The situation is similar with regard to other types of self-financing income which encompasses membership fees and assets, namely the share of these sources is 16% in the income structure of coastal NPOs, and 12%, in continental NPOs. If financial sustainability is viewed as a ratio of self-funding and donations and grants, it is clear that coastal NPOs have a ratio of 37:63 and continental NPOs, a ratio of 24:76. This suggests that NPOs in coastal destinations more fully recognize the importance of self-funding activities for their financial sustainability, while the resulting larger share of self-funding can be attributed to these NPOs undertaking activities that impact tourism on direct or indirect manner. Unlike coastal NPOs, continental NPOs for the most part depend on donations and grants, and undertake commercial activities to a very small extent.

The amount of income in the past three years are presented in Figure 6.



**Figure 6:** Amount of income in the past three years. (NPOs in continental tourist destinations vs NPOs in coastal tourist destinations) (Source: Authors’ own calculation.)

Graph 6 shows that in the previous three years the income of continental NPOs has mostly dropped (44%) or remained unchanged (27%), with only 29% of the surveyed NPOs reporting an upward trend. The income pattern of coastal NPOs, however, reveals



a considerably better situation, with most of the NPOs reporting either no change (43%) or growth (39%) and only 18% reporting a downward trend. This suggests that the substantially more-favourable situation of coastal NPOs relative to continental NPOs could be linked to the much higher level of commercial activities undertaken by coastal NPOs in comparison with their continental counterparts. On the other hand, as demonstrated earlier, continental NPOs depend to a large extent on public funding, which has been steadily shrinking year after year, suggesting that this downward trend has had a negative effect resulting in a drop in the NPOs' total income.

On the Likert scale from 1 to 5 (1=very poor, 5=excellent), the respondents were asked to rate the financial situation of NPO, as well as situation of the non-profit sector in global, and how are they satisfied with their donors.

Results are presented in Table 2.

TABLE 2: Assessment of financial situation.

Question	Average score, by NPOs in coastal tourist destinations	Standard deviation	Average score, by NPOs in continental tourist destinations	Standard deviation
Assessment of NPO's financial situation	3.08	.858	2.06	.875
Assessment of donor relationships	3.51	.988	2.49	.898
Assessment of financial situation of entire non-profit sector	2.77	.921	1.73	.911

Source: Authors' own calculation.

Table 2 shows that, in comparison with coastal NPOs, continental NPOs gave considerably lower average scores across all segments, with the lowest average score being 1.73 for the financial situation of the entire non-profit sector. Likewise, coastal NPOs also gave the lowest average score to the financial situation of the non-profit sector (2.77). The average score (3.08) for the current financial situation of coastal NPOs is considerably higher than that of their continental counterparts (2.06). Both coastal NPOs and continental NPOs gave the highest average scores to their relationships with donors.

### 3.2. Statistically significant differences in NPOs' financial sustainability

To test the formulated hypothesis ANOVA test was applied. The aim of this test was to test if there are statistically significant differences in financial sustainability between NPOs operating in coastal tourist destinations and NPOs operating in continental tourist destinations. An examination of histograms, and kurtosis and skewness tests revealed the normal distribution of the dependent variable. The homogeneity of variance has been verified with *Levene's test* (significance > 0.05) which justifies the ANOVA test.

TABLE 3: ANOVA test results.

	ANOVA		
	Levene's test Sig.	F	Sig.
Other self-funding	.154	3.252	.006*
Active self-funding	.118	3.337	.000*
Grants and donations	.147	.852	.520

\* Significant at the 99% confidence level. Source: Authors' own calculation.

The presented results confirm that there is a statistically significant differences between NPOs operating in coastal and NPOs operating in continental destinations with regard of the income generated from membership fees and assets, so called "other self-funding" ( $p = .006 < 0.01$ ) and the income generated from selling products and services, so called "active self-funding" ( $p = .000 < 0.05$ ). The results did not show statistically significant differences in the income from donations and grants, considering that the value of  $p$  is 0.514, which is higher than 0.05.

The above results indicate that the auxiliary hypotheses H1 and H2 can be confirmed, that is, there is a statistically significant difference between NPOs operating in coastal destinations and NPOs operating in continental destinations with regard to the income generated by "active self-funding" and to income generated by "other self-funding activities". Hypothesis H3 is rejected, however, as there is no statistically significant difference between coastal NPOs and continental NPOs with regard to the income from donations and grants.

Hence, it follows that the central hypothesis "There is a statistically significant difference between NPOs operating in coastal tourist destinations and NPOs operating in continental tourist destinations with respect to financial sustainability" is partially rejected at the 99% significance level.

For those destinations for which a statistically significant difference was determined, the *post hoc Tukey HSD* test was performed. The results are presented in the table 4.

The *Tukey's HSD test* shows differences, (significance level of 95%), in the income from active self-funding and by other self-funding, based on whether NPOs are operating in Croatia's coastal tourist destinations or continental tourist destinations. NPOs operating in the territories of Rovinj (14.29688) and Dubrovnik (12.25454) have a higher share of income from so-called other self-funding than do NPOs operating in the territory of the City of Zagreb. This is evident from the positive sign of mean difference. Similarly, NPOs active in the territories of Poreč (9.20699), Rovinj (13.18221) and Medulin (11.04301) have a higher share of income from other self-funding than do NPOs active in the territory of Varaždin. The same applies to NPOs operating in the territory of Poreč relative to NPOs operating in Stubičke Toplice.

The differences between coastal NPOs and continental NPOs with regard to income from active self-funding are also notable. Namely, the share of income generated by active self-funding is smaller in NPOs operating in Osijek (-14.45313) and Slunj (-12.54552) relative to NPOs operating in Medulin. The same applies to NPOs operating in Tuhelj (-16.48077) and Velika Gorica (-16.61530) relative to NPOs operating in Poreč.

TABLE 4: Tukey's HSD post hoc test results.

Tukey's HSD post hoc test					
	NPO headquarters (I)	Headquarters (J)	Mean difference (I -- J)	Sig.	
Other self-funding	<i>Zagreb</i>	Rovinj	14.29688	.037	
		Dubrovnik	12.25454	.042	
	<i>Varaždin</i>	Poreč	9.20699	.014	
		Rovinj	13.18221	.031	
		Medulin	11.04301	.040	
	<i>Stubičke Toplice</i>	Poreč	8.02834	.022	
		<i>Medulin</i>	Osijek	-14.45313	.033
	Slunj		-12.54552	.042	
	<i>Poreč</i>		Tuhelj	-16.48077	.034
			Velika Gorica	-16.61530	.032
<i>Dubrovnik</i>	Varaždin		-17.46505	.038	
	Karlovac		-15.99593	.023	
	Tuhelj		-14.85185	.030	
	Slunj		-16.56061	.048	

Source: Authors' own calculation.

The share of income generated by active self-funding in the income structures of NPOs operating in Varaždin (-17.46505), Karlovac (-15.99593), Tuhelj (-14.85185) and Slunj (-16.56061) is smaller than that of NPOs operating in the territory of Dubrovnik.

The above analysis indicates that NPOs operating in coastal tourist destinations have a higher share of income from active self-funding, which ultimately contributes towards their greater financial sustainability. The higher share of income from active self-funding can be linked to the destinations' level of tourism development, given that the presented coastal tourist destinations are pillars of the Croatian tourism industry, with residents largely involved, either directly or indirectly, in tourism and in tourism development. This further suggests that coastal NPOs are more attuned to tourists and have recognized the potential of, and opportunities provided by, tourism for undertaking commercial activities to increase the share of their own earned income, thus making them more financially sustainable. On the other hand, local tourist boards are recognising the importance of NPOs in tourism development and seek to involve them in tourism development projects and/or reward NPO activities that affect tourism. Conversely, NPOs operating in continental tourist destinations continue to have a mostly passive attitude towards tourism, endeavouring to ensure the bulk of funding from public funds, that is, donations.

This can be linked to the drastically lower level of tourism development in continental Croatia relative to coastal Croatia and to the fact that the local population in continental regions still does not have a sense of being part of the tourism system. Previous research has mainly focused on determining the differences in the amount of self-generated income with regard to the field of activity of NPOs [8, 16]. However, studies comparing the financial sustainability of NPOs with respect to the tourism development of the destination in which they operate are still unknown.

## 4. Conclusion

A major challenge facing the non-profit sector is having sufficient funding to operate freely. For non-profit organizations to be able to operate successfully and carry out the mission for which they were founded, it is extremely important that they shift away from traditional sources of funding through public funds and turn towards activities that would enable them to generate their own income while still focusing on their missions. When carrying out these commercial activities, NPOs operating in developed tourist regions can impact tourism in direct and indirect manner, and are able to generate income either directly or indirectly. The research results presented in this paper suggest that the NPOs operating in Croatia's coastal tourist destinations shows considerably better financial situation than that of NPOs operating in the country's continental tourist destinations. In addition, unlike continental NPOs, coastal NPOs also have more annual income and gave higher scores regarding their own financial situation and the financial situation of the entire non-profit sector. In the income structure of coastal NPOs, self-funding activities account for 37% of generated income, while this share is only 24% in continental NPOs.

The study also shows that there are statistically significant differences between coastal NPOs and continental NPOs with regard to active self-funding (referring to income generated by selling products and providing services) and other self-funding (referring to income from membership fees and assets). Namely, the share of self-funding activities is higher in coastal NPOs than in their continental counterparts. These findings suggest that NPOs operating in coastal tourist destinations recognize potential of tourism in order to improve NPOs financial situation and increase their own earned income, which consequently has a positive effect on their financial sustainability. The existing differences in the financial sustainability of coastal NPOs and continental NPOs could also be attributed to the differing levels of tourism development in the tourist destinations in which they operate. Unlike in continental Croatia, in coastal Croatia tourism is a primary activity upon which depend the livelihoods of many people, tourist traffic is growing year after year, and most people are involved in tourism, either directly or indirectly.

This study identified one important limiting factor which is reflected in poorly organized Register of Associations of the Republic of Croatia. For example, NPOs can register under one or more fields of activity but there is no unambiguous explanation as to what activities belong to which specific field. Also, the Register does not allow the registration of one primary field of activity according to NPOs main objective what

makes searching very confusing. Another limiting factor is lack of database of financial reports of NPOs which would serve as a comparison over time.

This paper makes both a contribution to theory, by expanding the existing theories of NPO financial sustainability through tourism, and a contribution to application, as it can serve NPO Assembly members as an example of how to improve their self-funding activities.

In further research it would be worthwhile to make comparisons with other Mediterranean countries with developed tourism to obtain an even more comprehensive picture of the impact of tourism on NPO financial sustainability.

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