

Centre for Social Innovation

Practitioner Briefing - August 2015

TRANSPARENCY AND TRUST IN THE CHARITY SECTOR

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**UNIVERSITY OF
CAMBRIDGE**
Judge Business School



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The Centre for Social Innovation

The Centre for Social Innovation at Cambridge Judge Business School, University of Cambridge, acts as a platform for research and engagement with social innovators, academia and policy in UK and across the world. Its primary focus is to understand, promote, and engage with social innovators and create and support social ventures and projects.

Social innovation is concerned with the development of creative and practical solutions to complex social problems. While many social innovators work in non-profit organizations, they are increasingly found in government and corporations. Indeed, the boundaries between the sectors have become increasingly indistinct, and much social innovation takes place at the intersection between them.

The Centre for Social Innovation will therefore focus on leadership for social change, wherever it takes place. Leadership for social change involves a different kind of leadership, one that's less adversarial, one that seeks to have a positive impact on the kind of world that we live in, and one that blurs the boundaries between what's for-profit and what's non-profit.

The Centre for Social Innovation will engage in scholarship focused on social innovation and social ventures that aim to create sustainable social and economic value, which encompasses the private, public and third sectors. It will create new academic courses aimed at practitioners who want to use research to enhance understanding of, and the impact of social innovation.

The Centre will also support social innovators through events, training programmes and online materials. A central tenet of the Centre would be that it brings academics and practitioners together in all aspects of its governance and delivery.



About the author

Rosie Horton has spent a year as part of Charityworks, an acclaimed leadership programme which allows graduates to develop sustainable careers in the non-profit sector. Through Charityworks she has managed various projects and campaigns at a large housing association, as well as taking part in learning sessions that introduced her to key issues affecting charities and society as a whole. This unique opportunity to access a national network of charities and work alongside graduates and leading experts in the field, inspired her interest in transparency and trust in the charity sector.

Rosie has always known that she wanted to be involved with social change and her time working and travelling in South America and China confirmed this. She met some inspiring individuals from around the world who are working locally to create grassroots change, and last year decided the time was right to return to the UK and start her own career in the charity sector.

She holds a first class BA (Hons) in International Development and Spanish from the University of Leeds.

Introduction

Transparency is becoming a buzzword increasingly debated both within the sector and in the public domain. According to a report by Global Tolerance¹ almost 75% of people want to see more transparency in businesses, governments and non-profits.

Public trust has been identified as crucial to the success of charities, and it would be reasonable to assume that the increasing debate around transparency would be negatively impacting on the perception of the sector. However, research indicates that trust levels remain high, which raises the question as to why transparency has become such a hotbed of debate.

Stories around CEO salaries, unethical investments and chuggers are frequently in the headlines, and create highly public debates around the quality of transparency in the charity sector. Charities are forced to engage or risk looking like they are hiding something. Factors such as the Charity Commission, funding cuts and the rise of the millennials are creating an environment in which transparency has become central.

These factors will not fade away and leave the sector in peace, so how best can the sector engage with the debate and positively influence it? Proactive engagement and breaking down the barriers between public perception and the reality of the sector will play a pivotal role. There are also lessons to be learned from other fields, such as the increasingly common B Corps.

What is transparency?

In its basic form, transparency is providing stakeholders and the public with appropriate data and information. Charity Navigator², an organisation that rates charities in the United States on their transparency and accountability, embodies this approach as they base their scores on financial reporting, governance and the accessibility of information on the charity's website

Whilst this is a reasonable baseline, being truly transparent is not just about arbitrary numbers and data, but making sure the information given is relevant and placed in context.

Caron Bradshaw, Executive Director of Charity Finance Group, notes that throwing masses of data at stakeholders and the public can potentially "obscure, change and warp the true picture"³. Disregarding context and releasing reams of unnecessary data, makes sifting through it challenging, and leaves charities vulnerable to misinterpretation of the information they provide.

¹ Global Tolerance (2015) The Values Revolution, [online] Available at: <http://www.globaltolerance.com/thought-leadership/the-values-revolution/> [Accessed 10 June 2015].

² Charity Navigator (n.d.) How do we rate charities' accountability and transparency, [online] Available at: <http://www.charitynavigator.org/index.cfm?bay=content.view&cpid=1093#.VYWHKPIViko> [Accessed 14 May 2015].

³ Bradshaw, C (2015) Transparency – what is it really? Civil Society [online] Available at: http://www.civilsociety.co.uk/finance/indepth/analysis/content/18857/transparency_-_what_is_it_really [Accessed 12 May 2015].

There is also recognition that providing evidence of social impact is integral to transparency. According to Lynne Berry, deputy chair of the Canal and River Trust, "we can no longer just say we're 'doing good work' – you must be able to demonstrate you have added value to an intervention"⁴.

However, the Institute of Fundraising emphasised that it is all well and good providing information but transparency "is about being easy to understand, and being open, frank and honest"⁵. If the information is buried in a lengthy report or written in unintelligible terms then it stands to reason that it is not transparent.

Taking these perspectives into consideration, transparency can be understood as:

- Providing relevant information in an unbiased context
- Demonstrating social impact
- Making information easy to find and understand

Why is transparency becoming so widely debated?

Public trust

A loss of high public opinion has been identified as one of the largest risks for charities. Although research into public perceptions of the sector is limited, nfpSynergy, and Ipsos MORI both undertake surveys with the general public which look at levels of trust and analyse trends across the years.

Overall, the picture that emerges around charities is fairly flattering. Since their first study in 2005 for the Charity Commission, Ipsos Mori research consistently rates charities as the third most trusted sector, behind doctors and the police. Figures 1 and 2 give a breakdown of the scores.

⁴ Simmonds C (2014) What are 'emerging risks' and why are they important for charities? [online] Available at: <http://www.theguardian.com/voluntary-sector-network/2014/mar/10/why-emerging-risks-important-for-charities> [Accessed 14 June 2015].

⁵ Institute of Fundraising (n.d.) Defining accountability and transparency & key principles, [online] Available at: <http://www.institute-of-fundraising.org.uk/code-of-fundraising-practice/guidance/accountability-and-transparency-guidance/defining-accountability-and-transparency-and-key-principles/> [Accessed 7 June 2015].

Figure 1: 'On a scale of 0-10... How much trust and confidence do you have in charities?'⁶

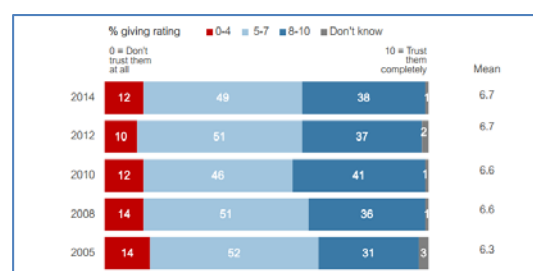
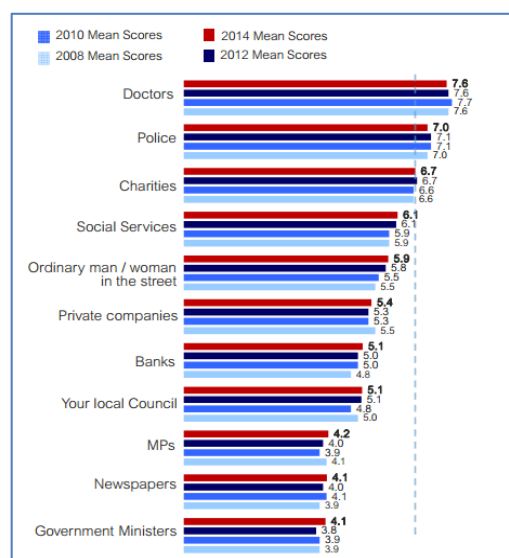


Figure 2: 'Trust scores compared to other organisations and bodies in the public sphere.'⁷



The most recent

nfpSynergy study⁸ placed charities 7th among 24 institutions, with the Royal Family and small businesses moving ahead for the first time. However, whilst this rating is respectable, the research highlighted a 10% drop in trust from the previous year. Although this is only a slight reduction, the sector needs to consider what might have caused it, in order to continue to maintain its reputation and ensure it doesn't drop further.

The nfpSynergy study did ask participants what would reassure them when trusting charities. Figure 3 outlines their top responses, which indicate that increasing transparency around regulation, funding, and their social impact would help keep trust levels high, and potentially restore charities to their pedestal.

A presentation⁹ by Ipsos MORI correlated to some extent with the nfpSynergy research. As shown in Figure 4, transparency around the use of funds is high on the priority list for the public. Using donations effectively so as much as is reasonably possible goes to the end cause is evidently important, yet the public do not trust that this happens as much as it should.

⁶ Ipsos MORI (2014) Public trust and confidence in charities: Research study conducted by Ipsos MORI on behalf of the Charity Commission [online] Available at: <https://www.ipsos-mori.com/Assets/Docs/Publications/sri-charities-public-trust-and-confidence-in-charities-2014.pdf> [Accessed 19 June 2015].

⁷ Ibid

⁸ nfpSynergy (2014) Charities hit by significant drop in trust levels over the past year, [online] Available at: <http://nfpSynergy.net/trust-2014> [Accessed 19 April 2015].

⁹ Latter, J (2015b) slides from part 1 of a presentation to Charityworks graduates about the state of the charity sector

Figure 3: What would reassure the public when trusting charities? ¹⁰

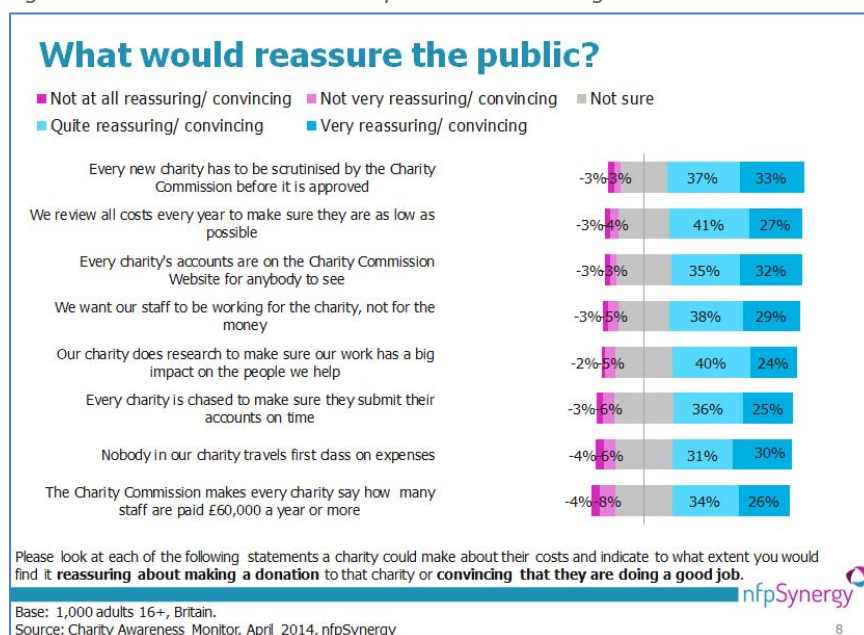
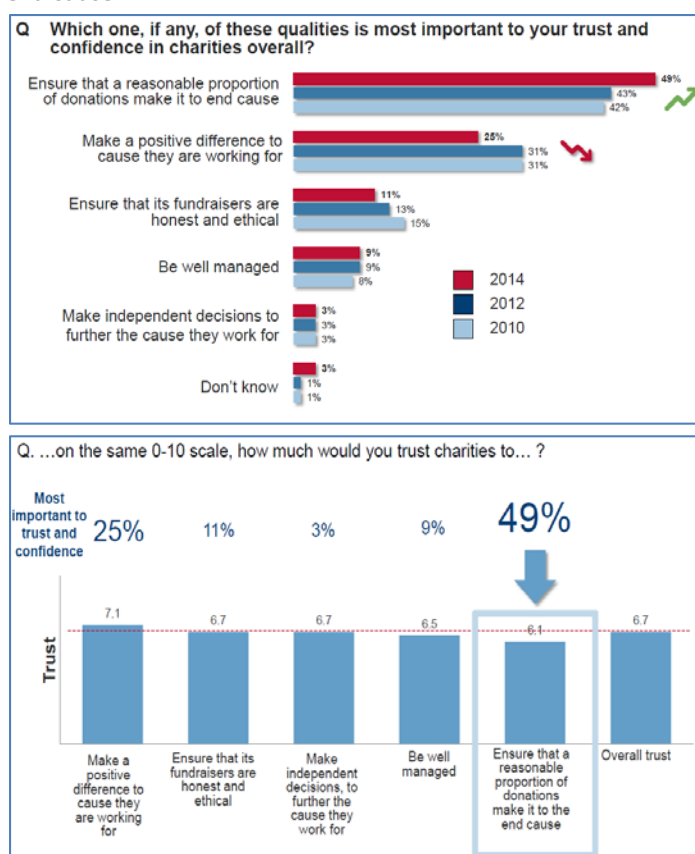


Figure 4: Importance of, and trust in, demonstrating that a reasonable proportion of donations make it to the end cause ¹¹

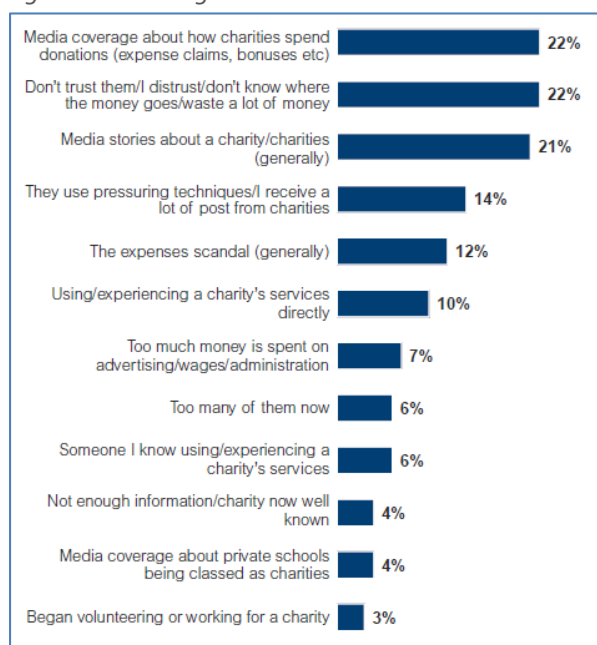


¹⁰ nfpSynergy (2014) Charities hit by significant drop in trust levels over the past year, [online] Available at: <http://nfpsynergy.net/trust-2014> [Accessed 19 April 2015].

¹¹ Latter, J (2015b) slides from part 1 of a presentation to Charityworks graduates about the state of the charity sector

Ipsos MORI also asked those who had identified losing trust in charities why they had changed their opinion. The results can be seen in Figure 5. Relating to the transparency debate, aside from the already acknowledged lack of trust around financial management and reporting, a different trend emerges. Media coverage around how charities spend donations, and media stories in general, seem to be some of the highest rated reasons for decreasing trust.

Figure 5: Reasons given for a decrease in trust ¹²



MEDIA

Recent issues picked up by the media include excessive overheads, CEO pay, unethical investments by Comic Relief, alleged tax scams by the Cup Trust charity, the closure of some Muslim charities' bank accounts, banning 'chuggers' from some areas, and the recent death of Olive Cooke who the media claimed was hounded by charities. Figure 6 shows some examples of this coverage.

Figure 6: Examples of recent news coverage for charities:



¹² Ipsos MORI (2014) Public trust and confidence in charities: Research study conducted by Ipsos MORI on behalf of the Charity Commission [online] Available at: <https://www.ipsos-mori.com/Assets/Docs/Publications/sri-charities-public-trust-and-confidence-in-charities-2014.pdf> [Accessed 19 June 2015].

A scan of media coverage of the charity sector leads to the unwelcome realisation that it is usually unflattering. Even the Independent, who ran a balanced report on the Comic Relief debacle, chose the negative headline: "Comic Relief scandal: There are red faces behind the red noses"¹³. This negativity creates a sense of outrage among the public and forces a debate with the sector on the defence.

The newest story is that of face-to-face fundraisers, or 'chuggers', being banned or restricted in some areas, with Croydon becoming the 100th town to curb their actions on the basis that they cause concern for the public and businesses. Unfortunately for charities, the media has inevitably drawn a link between this and the death of Britain's oldest poppy seller, Olive Cooke, with her story cropping up in the majority of articles and Reddit threads about chuggers.

When Olive Cooke jumped to her death, the media seized on the huge volume of phone calls and letters she received from charities as the reason behind her suicide. Even David Cameron weighed in, saying he hoped the Fundraising Standards Board would look to see whether more could have been done to prevent the overwhelming amount of fundraising requests Olive Cooke received.

Whilst the letters were clearly a nuisance, and Olive herself spoke to the media about them in the years before her death, her family have repeatedly stated that they did not play a factor in her suicide. She had suffered from depression and ill health for many years, and it was this that she spoke about in her final letter to her family. Her granddaughter said Olive would have wanted charities' work to be upheld and would not have wanted the media backlash that happened in the wake of her death.

In the month following her death, the Fundraising Standards Board (FRSB) received almost 400 complaints, of which 77% were about charity communications or approaches made to vulnerable or elderly people. As a result of the complaints, the media storm and David Cameron's comments, the FRSB launched an investigation into charity fundraising practices. An interim report¹⁴ has recommended strengthening areas of the FRSB's Code of Fundraising Practice, and giving the public more control over the way they are contacted by charities.

One story that is repeatedly covered by the media is CEO pay. In August 2013, The Telegraph ran the story: "30 charity chiefs paid more than £100,000"¹⁵. In 2015 an almost identical headline stated: "32 charity bosses paid over £200,000 last year"¹⁶. These headlines sparked indignation during which the sector defended itself by claiming it needs to attract the most skilled professionals, and emphasised the pay difference between sectors. As a consequence of the pay debate, the National Council for Voluntary Organisations (NCVO) and the Charity Commission created guidelines for trustees around how to set appropriate pay scales.

¹³ Vallely, P (2013) Comic Relief scandal: there are red faces behind the red noses, The Independent [online] Available at: <http://www.independent.co.uk/voices/comment/comic-relief-scandal-there-are-red-faces-behind-the-red-noses-9005279.html> [Accessed 19 June 2015].

¹⁴ Fundraising Standards Board (2015) Investigating into charity fundraising practices: Interim report [online] Available at: http://www.frsb.org.uk/wp-content/uploads/2015/06/FRSB-Interim-investigation-report_Published-9June2015.pdf [Accessed 28/07/2015].

¹⁵ Hope, C (2013) 30 charity chiefs paid more than £100,000 The Telegraph [online] Available at: <http://www.telegraph.co.uk/news/politics/10224104/30-charity-chiefs-paid-more-than-100000.html> [Accessed 5 May 2015].

¹⁶ Hope, C (2015) 32 charity bosses paid over £200,000 last year The Telegraph [online] Available at: <http://www.telegraph.co.uk/news/politics/11435754/32-charity-bosses-paid-over-200000-last-year.html> [Accessed 5 May 2015].

The negative stories in the media force charities to engage in debates around transparency in a very public arena. As has been seen, this drives the sector to take action even when levels of trust remain high. Until media negative media coverage of charities ends, which is a utopia the sector cannot (and should not) hope for, it will always play a part in driving the transparency debate.

Notwithstanding poor media coverage, research strongly indicates that trust in charities remains high. Although it is not immune to fluctuations in opinion, there doesn't seem to be a danger of it diminishing to the point of creating a 'crisis of trust'. Whilst it would be foolish to disregard the importance attached to financial transparency, social impact and the media, there are other factors which need to be considered when understanding why transparency is becoming so important. Only by understanding the whole picture can the sector engage as effectively as possible with the debate.

Isomorphic pressures

Isomorphism relates to the increasing similarity between the processes and structures of organisations in the same field, and why this resemblance occurs. Broadly speaking there are three main types of institutional isomorphism, outlined in Table 1. Using isomorphic pressures as an analytical tool to understand the debate, allows us to analyse the driving factors through a list of hypotheses which predict how organisations will react to isomorphic pressures.

*Table 1: Three main forms of institutional isomorphism and their defining characteristics*¹⁷

Mimetic isomorphism	Coercive isomorphism	Normative isomorphism
Organisations change as a result of uncertainty, which encourages imitation by: <ul style="list-style-type: none"> - Modelling on more successful or legitimate organisations - Recommendations from consulting firms 	Forced change creates similarities in organisations as a result of: <ul style="list-style-type: none"> - Laws - Technological developments - Requirements to comply with expectations of a parent company 	Similarities occur through professional standards and networks: <ul style="list-style-type: none"> - Similar person specifications and education for roles - Similar professionals in the same networks

MIMETIC ISOMORPHISM

Mimetic isomorphism is the process of similarities increasing within a sector as, during times of uncertainty, organisations mimic those they see as more successful.

"The more uncertain the relationship between means and ends the greater the extent to which an organisation will model itself after organisations it perceives to be successful"¹⁸

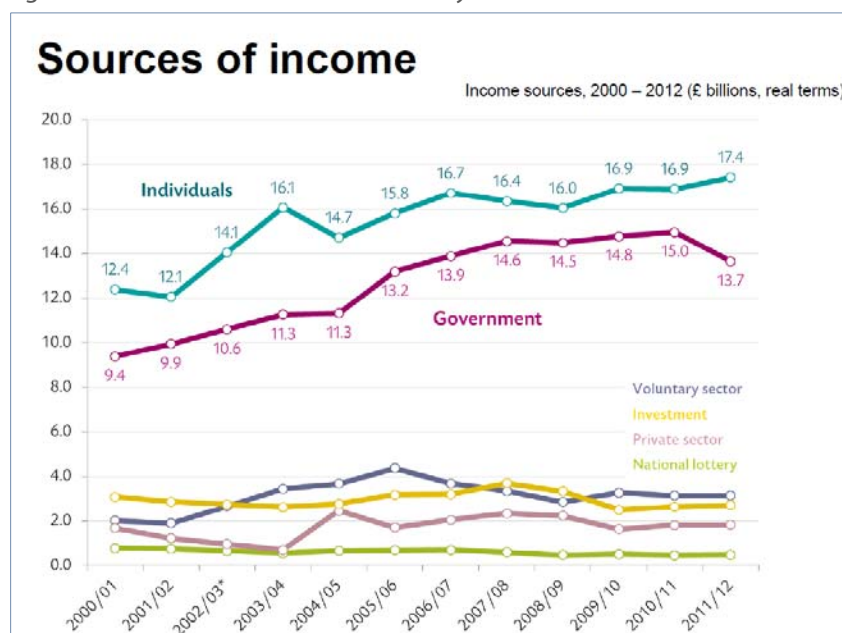
Uncertainty around funding is increasing in the charity sector. Figure 7 shows how 4 of every 5 pounds received by the sector comes from the government or individual donations. Between 2011 and 2012 government funding for charities fell by around £1.5 billion to its lowest rate since 2005/06, and it looks

¹⁷ DiMaggio, P and Powell W (1983) The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organisational Fields, *American Social Review*, Volume 48 (2) pp147-160 Available at: <http://links.jstor.org/sici?sici=0003-1224%28198304%2948%3A2%3C147%3ATICR%3E2.0.CO%3B-s>

¹⁸ Ibid

unlikely that this will return to its 2011 peak in the near future. This increases uncertainty, as of the 160,000+ UK charities, most rely on public donations and fundraising to stay afloat.

Figure 7: Sources of income for the charity sector¹⁹



Despite reduced funding, charities are taking on more roles previously held by the government. As a result, scrutiny around raising and using funding will increase²⁰. This is evidenced when looking at how charity comparison sites prioritise the information shown. Charity Navigator focuses on funding and governance for its scoring criteria. GuideStar UK features a prominent income and expenditure table for each charity. Alive and Giving display each charity's income and the percentage of spend which goes on the end cause.

Consequently, as charities try to attract government funding from a reduced pot, or competition for individual donations grows, they will mimic those that are seen to be more successful at demonstrating how funds are raised and utilised in order to improve their profile.

Some of the more successful charities were recognised during the ICAEW Charities Online Financial Reporting and Accounts Awards (COFRA). The awards distinguish charities that have developed easily accessible, online financial reporting. The Royal National Institute for Blind People (RNIB) was one of the 2013 winners. For the first time, they had chosen to focus on reporting their impact, rather than just listing the activities they had undertaken. The South Yorkshire Funding Advice Bureau, who made their annual report easy to understand, also won. Both charities acknowledged that showing the impact of their work alongside financial information had led to better engagement with the public²¹.

As uncertainty around funding grows, organisations such as the RNIB and the South Yorkshire Funding Advice Bureau will be looked at by other charities who wish to modify their transparency practices in

¹⁹ NCVO (2015) Road ahead breakfast session led by Karl Wilding: Attended on 30/01/2015, London

²⁰ Maple, P and Murdock A (2013) Fundraising and transparency in the not-for-profit sector, Chapter 4 pp.64 – 83 in Viñals C and Rodriguez C Social Innovation: new forms of organisation in knowledge-based societies, Routledge: London

²¹ Hudson, S (2013) Demonstrating your charity impact The Guardian [online] Available at: <http://www.theguardian.com/voluntary-sector-network/2013/oct/31/demonstrating-impact-charity-has-made> [Accessed 6 May 2015].

order to access funds. However, it is important to note that mimetic isomorphic pressures will not automatically improve transparency. The sector is not immune to trends, and copying popular ideas does not necessarily lead to innovation. It can be hoped, however, that as practises become more widespread they will be critiqued and enhanced which will naturally lead to improved transparency.

COERCIVE ISOMORPHISM

Coercive isomorphism occurs when changes are forced upon a charity through regulations and technological developments.

“The greater the dependence of an organisation on another organisation, the more similar it will become to that organisation in structure, climate, and behavioural focus”²²

For charities in England and Wales the largest regulator is the Charity Commission²³. Their priority is to develop:

- Public confidence in the charity sector
- The sector’s compliance and accountability
- The self-reliance of individual charities

UK Charities must also follow a Statement of Recommended Practice (SORP) when preparing annual reports and accounts. Charities are largely dependent on the Charity Commission and Charities SORP for guidelines around transparency, which influences the reporting structure they use and their behaviours towards transparency. Dependence leads to increasing similarities between charities’ reporting structures which, in a hugely diverse sector, is bound to lead to differences of opinion as to what these structures should be.

In the past few years the quality of information provided by charities has come under scrutiny. The Charity Commission regards the Charity SORP to be the minimum standard charities should comply to, yet in 2004 they found that “the general standard of performance against the transparency and accountability framework is not satisfactory. Whilst there are some very good examples, too many charities in our study did not meet basic requirements”²⁴.

This lack of faith in the reporting systems led to reviews of transparency in the sector. In response to a recent Public Administration Select Committee’s report, and consequent government recommendations, the Charity Committee undertook a consultation around annual reports. With the aim of improving transparency and accountability they are considering asking charities with incomes between £10,000 and £500,000 to provide detailed information on their annual return. This currently only applies charities whose income exceeds £500,000. Additionally, the following questions may be included in the annual return:

- How much of your charity’s total expenditure has been on campaigning activities?
- How much of your charity’s income was received from:
 - public service delivery

²² DiMaggio, P and Powell W (1983) The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organisational Fields, *American Social Review*, Volume 48 (2) pp147-160 Available at: <http://links.jstor.org/sici?sici=0003-1224%28198304%2948%3A2%3C147%3ATICR%3E2.0.CO%3B-s>

²³ Charities which are exempt from regulation by the Charity Commission include educational charities, museums and galleries, social housing providers and church investment funds (Charity Commission 2015b)

²⁴ Charity Commission (2004) Transparency and accountability (RS8), [online] Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/284721/rs8text.pdf [Accessed 5 April 2015].

- private donations

It also looks like changes being introduced in the revised Charities SORP this year will lead to a consultation around the financial information collected from charities with an income exceeding £500,000²⁵.

In this atmosphere around reviewing reporting mechanisms it is natural that debates will take place around transparency. This is being triggered by coercive isomorphic pressures from the Charity Commission who are initiating consultations around the proposed changes, and will ultimately be responsible for outlining any policies and procedures charities will have to comply with.

NORMATIVE ISOMORPHISM

Normative isomorphism relates to an increasingly similarities as a result of a homogenous workforce:

“The greater the participation of organisational managers in trade and professional associations, the more likely the organisation will be, or will become, like other organisations in its field.”²⁶

The sector is changing as millennials²⁷ start to join the ranks. In a similar manner to the post second world war generation, they want to make the world a better place, and are hugely empowered to do this as they are more globally connected than ever before. As more millennials join they will make transparency reporting increasingly important as they bring their values and expectations with them.

Research by Global Tolerance²⁸ into the values of millennials found that:

- 84% consider it their duty to make a positive difference through their lifestyle
- 60% prefer to buy products or services from companies that are doing good
- 38% are willing to pay more for products that align with their values
- Over $\frac{2}{3}$ consider a company's social and environmental impact before buying a product or service

With this new group of consumers and employees showing how values are integral to their choices, the onus is being put on charities to be transparent about their activities and demonstrate how they align with these values. As millennials infiltrate the sector and move into management positions, or start their own enterprises, their ideas will become increasingly incorporated into the work of charities through their network of contacts in professional associations. The strong value base that their ideas are generated from will push transparency around demonstrating social impact to the forefront of charities' considerations.

Within the sector there is a body of thought emerging around the values that charities have. When the world 'charity' or 'social' is added to an organisation it automatically gives people the idea that it is a 'virtuous organisation'. For Neil Stott, Executive Director for the Centre for Social Innovation at

²⁵ Charity Commission (2014) Annual return for 2015 – information collected from charities, [online] Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/322810/consultation_ar2015.pdf [Accessed 25 May 2015].

²⁶ DiMaggio, P and Powell W (1983) The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organisational Fields, *American Social Review*, Volume 48 (2) pp147-160 Available at: [http://links.jstor.org/sici?sici=0003-1224\(198304\)48:2;1-0;FT-1](http://links.jstor.org/sici?sici=0003-1224(198304)48:2;1-0;FT-1)

²⁷ Those born between 1981-1996

²⁸ Global Tolerance (2015) The Values Revolution, [online] Available at: <http://www.globaltolerance.com/thought-leadership/the-values-revolution/> [Accessed 10 June 2015].

Cambridge Judge Business School, "the sector has relied upon assumed virtue too much"²⁹. Global Tolerance agrees with this as they found that "up two thirds of people said it's not enough for organisations to 'say' - they have to 'do'"³⁰.

This goes further than good marketing by charities. It means making the values of a charity integral to everything it does, and making sure promises and objectives are realistic and reachable. With millennials focusing on values, "we will all be increasingly held to account for our virtuous promises"³¹.

The key to achieving this is through transparency. Through transparency, a charity is able to demonstrate that it is working towards the values millennials hold, and that it is fulfilling the promises it has made. As areas of best practice emerge, ideas are likely to spread as a result of normative isomorphic pressures through increasingly similar professional associations and peer groups.

²⁹ Stott (2015) Conversation around isomorphic pressures and factors that are stimulating the transparency debate, [telephone interview and subsequent email correspondence].

³⁰ Global Tolerance (2015) The Values Revolution, [online] Available at: <http://www.globaltolerance.com/thought-leadership/the-values-revolution/> [Accessed 10 June 2015].

³¹ Ibid

Recommendations

It is clear that as a result of coercive, mimetic and isomorphic pressures the transparency debate is not going to disappear and that some change is inevitable within the sector. This is further perpetuated by the media attention charities receive, and the need to maintain the high levels of public trust the sector currently enjoys.

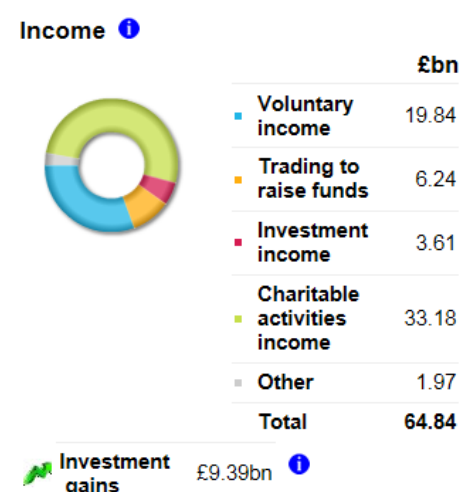
However, greater transparency does not have to be something negative that charities are dragged towards kicking and screaming. There is an open window to turn transparency into an opportunity to engage with the public and introduce new practices and ideas that can develop and improve the sector, which should not be missed.

Overcoming the difference between reality and public understanding

One consideration is the disconnect between how charities are perceived and the reality of how they operate commercially. Caron Bradshaw (2015) noted that the public perception that the majority of fundraising is through low level activities such as bake sales and fun runs, is far from the reality of the commercial nature of many charities.

As shown in Figure 9, the income streams for the sector are more diverse and commercial than the public usually realise. Income from charitable activities³² generates the most money for the sector with voluntary income³³ taking second place. Billions of pounds are also raised through trading and investment.

Figure 9: Income for charities in England and Wales³⁴



³² Charitable activities income includes sale of goods or services as a charitable activity; sale of goods made or services provided by charities' beneficiaries; letting of non-investment property to further charities' objectives; grants for the provision of goods or services as part of charitable activities or for beneficiaries; ancillary trades connected with trading to raise funds (Charity Commission, n.d.).

³³ Voluntary income includes gifts and donations, including legacies; reclaimed tax through Gift Aid; Government and charity grants; membership subscriptions and sponsorships; gifts in kind and donated services and facilities (Ibid).

³⁴ Charity Commission (2014) Charities in England and Wales – 30 September 2014, [online] Available at: <http://apps.charitycommission.gov.uk/showcharity/registerofcharities/SectorData/SectorOverview.aspx> [Accessed 23 June 2015].

When breaking this picture down, it becomes even more complicated, as charities range in size from locally run initiatives to multi-million pound businesses. Figures 10-15 compare some of the most prominent charities in the UK. Cancer Research UK and OXFAM both bring in a similar amount from trading activities. On the other hand, Save the Children International relied almost solely on voluntary income to raise around £560million in 2014.

Figure 10: Cancer Research UK:
Income for 31 March 2014³⁵

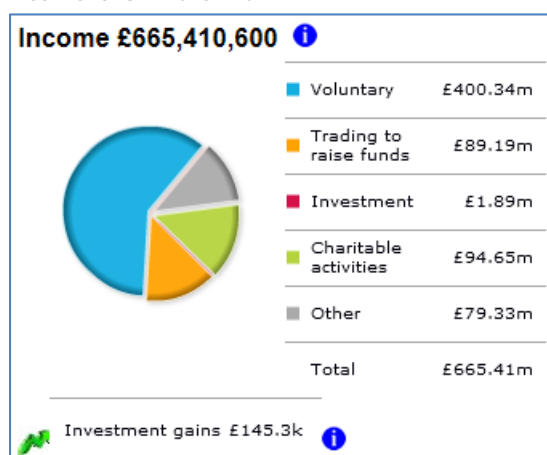


Figure 11: Cancer Research UK:
Spending for 31 March 2014³⁶

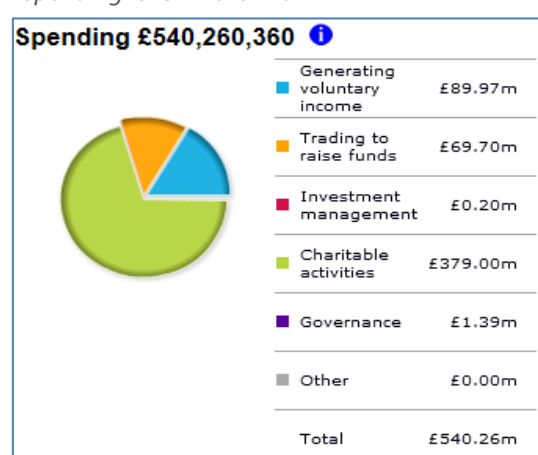


Figure 12: OXFAM:
Income for 31 March 2014³⁷

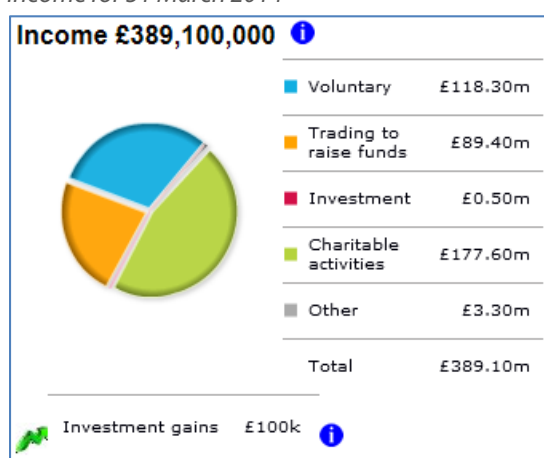


Figure 13: OXFAM:
Spending for 31 March 2014³⁸

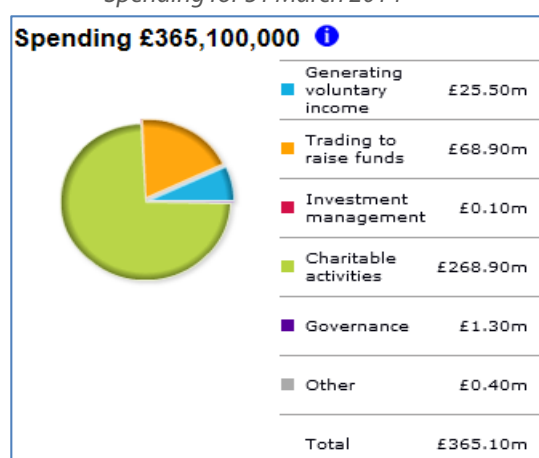


Figure 14: Save the Children International:

Figure 15: Save the Children International:

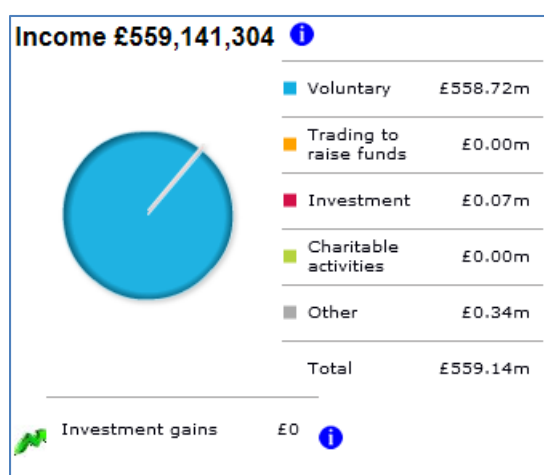
³⁵ Charity Commission (2014) Cancer Research UK accounts and annual return, [online] Available at: <http://apps.charitycommission.gov.uk/Showcharity/RegisterOfCharities/CharityWithPartB.aspx?RegisteredCharityNumber=1089464&SubsidiaryNumber=0> [Accessed 23 June 2015].

³⁶ Ibid

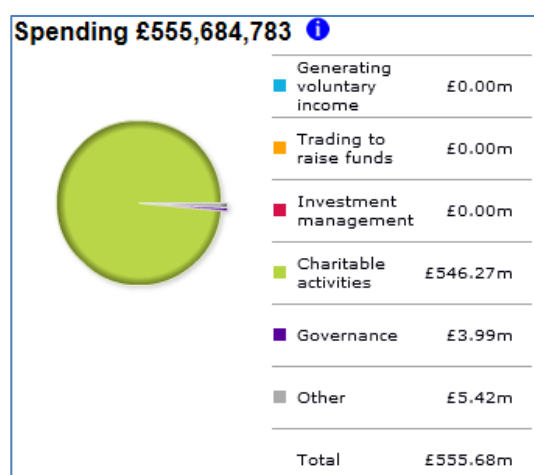
³⁷ Charity Commission (2014) OXFAM accounts and annual return, [online] Available at: <http://apps.charitycommission.gov.uk/Showcharity/RegisterOfCharities/CharityWithPartB.aspx?RegisteredCharityNumber=202918&SubsidiaryNumber=0> [Accessed 23 June 2015].

³⁸ Ibid

Income for 31 March 2014³⁹



Spending for 31 March 2014⁴⁰



There is a concern that if increased information is given around finances it could damage public trust if they understand the commerciality of the sector. After all, much of the criticism levied at charities in the media is around CEO salaries and the proportion of income not going directly to the end cause. However, when looking at the accounts above, the percentage spent on charitable activities is high for Cancer Research UK and OXFAM, with Save the Children International spending almost exclusively on this area:

- Cancer Research UK: 70.15%
- OXFAM: 73.65%
- Save the Children International: 98.3%

In contrast the percentage spent on governance for each charity is minimal:

- Cancer Research UK: 0.26%
- OXFAM: 0.36%
- Save the Children International: 0.72%

If the above charities were to present their accounts in such a way that their governance expenditure could be seen for the tiny proportion of spending that it is, there would be less room for the media to run negative stories around charity spending.

When debates arose around CEO pay in the sector, there was a conspicuous silence from trustees of some of the charities who hit the headlines. For John Low of CAF, it's the trustees who decide on the salaries, "if they set them, they should be willing to defend them"⁴¹. Instead of the same, albeit valid, rhetoric around charities needing to attract skilled professionals and using comparisons with other sectors to justify salaries, transparency gives us an opportunity to put the figures into perspective and force a move away from the arguments that salaries in the sector are too large.

³⁹ Charity Commission (2014) Save the Children UK accounts and annual return, [online] Available at: <http://apps.charitycommission.gov.uk/Showcharity/RegisterOfCharities/CharityWithPartB.aspx?RegisteredCharityNumber=1076822&SubsidiaryNumber=0> [Accessed 25 May 2015].

⁴⁰ Ibid

⁴¹ Noble, J and Wixley, S (2014) NPC – Mind the gap: what the public thinks about charities, [online] Available at: <http://www.thinknpc.org/publications/mind-the-gap/> [Accessed 1 May 2015].

As Caron Bradshaw argues we need to “carefully communicate a realistic and holistic narrative about charity finances to the public, in order to engender their trust and support”⁴². This links in with what exactly is meant by transparency. If it is just a case of making reams of information available then there would be a danger for the information to be taken out of context and used against charities. Arguably though, this already happens as stories around high CEO pay are run year on year, and usually in a negative way. Making sure information is provided in context and in a clearly understandable way would help to mitigate this, and give charities a good starting point if they find themselves under fire.

Proactive not reactive engagement

There are concerns that becoming more transparent would give the media more dirt to throw at the sector. Despite this, the transparency debate is not going to disappear any time soon, and trends in the media indicate commonly perceived ‘issues’ such as CEO pay and overheads will resurface time and again, with or without increasing the information released by charities themselves.

The example of Save the Children’s highest salary of £234,000 could have been mitigated by proactively showing that in 2014 that salary was just 0.04% of the total £555,680,000 spending, whilst 98.3% was spent on charitable activities. This information should be something charities are shouting about on their own initiative. There are various ways this could be undertaken, through a simple statement on the charity’s website, to proactively releasing the figures to the media, or engaging in a coordinated, sector wide campaign to highlight the realities of salaries, overheads and money going to the end cause.

New Philanthropy Capital (NPC) is an advocate for becoming more proactive, claiming transparency has “the capacity to defuse any future debates before they arise ... [as] the media are likely to be far less interested in charities’ workings if they feel they have nothing to hide and are being accountable for their activities”⁴³. This approach would create a shift in the sector away from reacting defensively to the almost annual CEO pay ‘scandals’, to a proactive engagement that limits the impact and validity of these stories.

This would also help charities maintain, if not improve, public trust as they would be seen to be transparent around how donations are spent. Whilst negative media coverage would not necessarily diminish, becoming more proactive would give the sector a cache of good news stories and statistics to work from when responding to negative stories, leading to a more coordinated and articulate response than the current silence of trustees regarding these issues.

Proactively engaging through transparency, either by directly communicating with the media or taking matters into their own hands does not have to pose a threat to charities. It could work in their favour, as they are perceived to be honest and upfront with nothing to hide, whilst presenting information in a way that is flattering to their work.

There are, of course, risks that this could backfire if the news around spending is not as good as expected, but this is a risk that the sector should be willing to take. After all, if charities are unable to look donors in

⁴² Charity Finance Group (2014) Caron Bradshaw comments on NCVO guidance for trustees on setting remuneration, [online] Available at: <http://www.cfg.org.uk/news/press-releases/2014/april/caron-bradshaw-comments-on-ncvo-guidance-for-trustees-on-setting-remuneration.aspx> [Accessed 2 March 2015].

⁴³ Noble, J and Wixley, S (2014) NPC – Mind the gap: what the public thinks about charities, [online] Available at: <http://www.thinknpc.org/publications/mind-the-gap/> [Accessed 1 May 2015].

the eye and say they are 100% comfortable with their expenditure and the impact they have had, then maybe they should be taking a longer look at themselves and change the way they work⁴⁴.

The role of the Charity Commission

Another positive story that should be proactively communicated is around the Charity Commission. In 2013 the National Audit Office found that “the Charity Commission [was] not regulating charities effectively. It [failed] to take tough action in some serious cases and makes poor use of its powers”⁴⁵ This sparked a review of the role of Charity Commission and serious work was undertaken to improve its legitimacy.

In 2015 the results of this work are gradually being realised.

- In 2013-14, 64 statutory inquiries were opened compared to 15 the year before. These inquiries have led to £47 million of charitable funds being accounted for⁴⁶
- In 2012-13, the Commission used its information gathering powers 200 times, compared to 652 times in 2013-14, and its enforcement powers 56 times in 2013-14, compared to 3 times in the previous year. In 2013-14 this protected £31.3m of charitable assets, including the recovery through litigation of £1 million for charities⁴⁷
- The Commission is using data more effectively, by cross-referencing with the National Fraud Database. It also plans to cross-check registered charities with charities claiming gift aid⁴⁸

There are at least three great news stories in the above statistics, yet there has been limited press coverage. The reasons for this are unclear. Perhaps the media just does not like a good news story, or the Charity Commission has not had the opportunity to proactively get the stories out into the public domain. Regardless of the reasons, there is an opportunity to boost the image of the sector here which seems to be being missed.

Some people may argue that the information is already out there and available in the public domain so why would charities need to force it down peoples’ throats. However, the amount of people who would realistically go to the Charity Commission to investigate matters further after reading about charities in the news is debateable. As can be seen in Figure 16, 68% of people asked felt that they did not know the Charity Commission and its role well at all.

⁴⁴ Singh, A (2015) Transparency is great, but not at the cost of a charity’s services The Guardian [online]. Available at: <http://www.theguardian.com/voluntary-sector-network/2015/jan/08/transparency-great-cost-charity-services> [Accessed 20 February 2015].

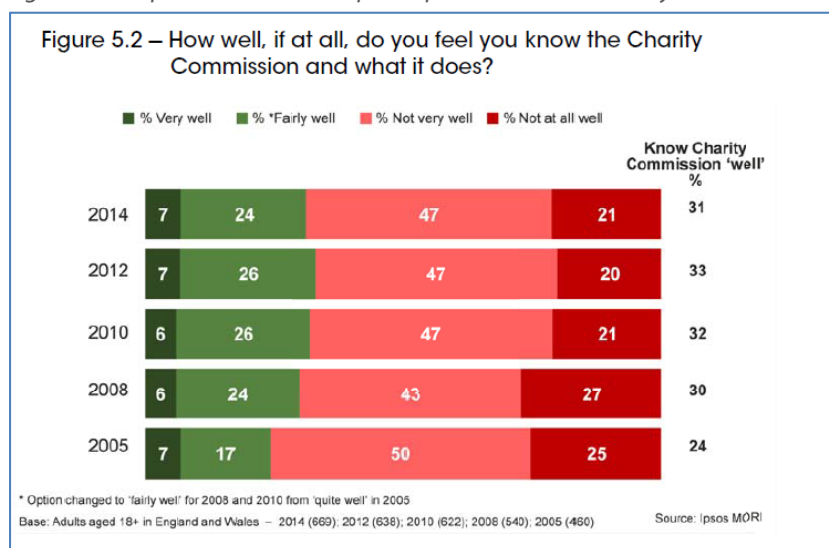
⁴⁵ National Audit Office (2015) Follow-up on the Charity Commission [online] Available at: <http://www.nao.org.uk/report/follow-up-on-the-charity-commission/> [Accessed 23 May 2015].

⁴⁶ Ibid

⁴⁷ Ibid

⁴⁸ Meade, A (2015) Charity Commission: what you need to know about NAO follow up, The Guardian [online] Available at: <http://www.theguardian.com/voluntary-sector-network/2015/jan/22/charity-commission-nao-follow-up> [Accessed 23 May 2015].

Figure 16: Responses to how well participants know the Charity Commission and their role ⁴⁹



Jay Kennedy, Director of Policy and Research at the Directory of Social Change, believes the Charity Commission is a great resource, but “we need to do much more to promote and develop the register of charities and increase understanding of how to access and interpret charity accounts”⁵⁰.

Whilst, the Charity Commission is still fairly hands off in regulating the sector, this looks set to change as it is currently developing IT systems that will allow for vastly improved regulations, which should come into effect in the next couple of years. As the debate continues, the Charity Commission has an opportunity to play the part of leader. As the main regulator its recommendations will hold a lot of weight, and it is the only organisation currently that can put in place the guidelines that will create improved and consistent practices around transparency.

Looking further afield

One of the demands from the public is that charities demonstrate their social impact. This is not a simple ask, as much of the evidence needed is qualitative, not quantitative, which makes it tricky to measure. Tricky is a far cry from impossible though, and by looking further afield the charity sector could learn a lot, especially from B Corporations (B Corps for short).

B Corps are for-profit organisations with high standards of social and environmental performance, accountability and transparency. Today, there are more than 1,000 Certified B Corps from 33 countries and over 60 industries and the movement is growing. Natura became the largest and first publicly traded company to join the movement, and Unilever has announced it is also contemplating signing up.

Any company wishing to have B Corp status must meet high standards of social and environmental performance, accountability and transparency, and they must continue to regularly demonstrate this.

⁴⁹ Ipsos MORI (2014) Public trust and confidence in charities: Research study conducted by Ipsos MORI on behalf of the Charity Commission [online] Available at: <https://www.ipsos-mori.com/Assets/Docs/Publications/sri-charities-public-trust-and-confidence-in-charities-2014.pdf> [Accessed 19 June 2015].

⁵⁰ Isaac, A (2015) Five things to know about managing a charity's transparency The Guardian [online] Available at: <http://www.theguardian.com/voluntary-sector-network/2015/mar/04/five-things-to-know-about-managing-charity-transparency> [Accessed 2 June 2015].

They have gained huge traction, and have managed to get laws changed in 26 US states to enable the creation of a new type of corporation – Benefit Corporations. Shareholders can now sue directors if they do not carry out the company's social mission, adding further legitimacy to the status of B Corp. As B Lab, the non-profit who started B Corps, states: "B Corp is to business what Fair Trade certification is to coffee"⁵¹.

Additionally, and perhaps most of interest for the charity sector, B Lab has created a free analytics tool for B Corps to use to help create consistency and trust in transparency reporting. The tool allows B Corps to measure their impact, benchmark against others and create a roadmap for improving their performance.

"Aside from the obvious feel-good factor, B Corp certification gives social-impact businesses street cred among customers, employees, investors and business partners"⁵². This is further developed through their list of 'Best for' winners. They currently have a Best for the World list of companies who all scored in the top 10% of B Corps for their impact assessment. Coming up there will be awards for Best for the Environment, Best for Workers and Best for the Community.

The success of the B Corp movement is, to a large extent, based upon the ideals of transparency through reporting social impact. They have created a way to analyse the impact made by companies, and B Corp status has become a badge of honour for those working towards social and environment change.

Something missing from the charity sector at the moment is a consistency of approach towards transparency. Taking ideas from B Corps could help improve this as it will not only enable the public to compare charities more easily, it will also make it easier for charities themselves to feel confident that they are being as transparent as possible.

If businesses and corporations are able to take on the complex problem of demonstrating impact, what excuse do charities in the UK have not to follow suit? B Corps have broken down the idea that measuring social impact and being transparent around funding is too complex an issue for the charity sector to undertake. There is an opportunity here for the charity sector to take ideas of best practice from B Lab. The Charity Commission could either implement a similar monitoring and measuring system itself, or rather than reinvent the wheel, join forces and collaborate with B Lab to embed their ideas across the sector.

Conclusion

The debate around transparency is not going to die down any time soon. A loss of public trust has been identified as one of the largest risks for the sector, and whilst there is no 'crisis of trust' occurring for the sector at the moment, recent surveys have underlined that the sector is not exempt from changes in opinion. Charities need to understand why these changes occur in order to maintain public trust. It is

⁵¹ B Lab (n.d.) The non-profit behind B Corps, [online] Available at: <https://www.bcorporation.net/what-are-b-corps/the-non-profit-behind-b-corps> [Accessed 29 June 2015].

⁵² Goodman, M (2013) Everything you need to know about B Corporation certification, Entrepreneur [online] Available at: <http://www.entrepreneur.com/article/227099> [Accessed 28 June 2015].

only through recognising the factors that the public deem important that charities can decide what the best way forward for the sector will be.

Studies point to three main areas that affect public opinion:

- transparency around financial management and funding
- demonstrating social impact
- media coverage around charities

However, these factors are not the only driving forces behind the debate. The Charity Commission plays a leading role in generating discussion through coercive isomorphic pressures. Uncertainty around funding is creating mimetic isomorphic pressures which lead to new and emerging ideas around best practice. Finally, the values millennials hold are being felt throughout the sector, and are gaining traction as charities try to gain their support.

As a result of these factors, the debate around transparency will continue to gain momentum, yet there are various options the sector could consider when looking at how to engage with this.

Firstly, educating the public around the reality of the sector does not have to mean charities risk losing legitimacy, if it is done in an informative way with information put into perspective and emphasis put on the money going towards charitable activities in comparison to governance costs. There is a lot of room for improvement here, especially for trustees to take the lead when the issue of CEO pay rises again, as it inevitably will do.

Secondly, the sector needs to move away from its defensive position and engage proactively with the public. There are lots of good news stories out there which should be shouted from the rooftops. By becoming more proactive charities arm themselves for further assaults from the media and promote the image that they are open and willing to discuss transparency.

The Charity Commission has a role to play in all of this. As the main regulator it has the power to implement guidelines and policies charities should comply with. It is improving its effectiveness as a regulator yet works still needs to be done to communicate to the public its role in ensuring transparency is evident in the sector.

Finally, lessons should be taken from further afield, specifically looking at B Lab who initiated B Corps. They have successfully implemented a model for measuring impact which can be used to benchmark against others and help organisations understand where they can improve. The creation of a similar set of standards for the charity sector would go a long way in proving to the public that transparency is something the sector is taking seriously, and would create consistency across the sector in terms of measuring and evaluating social impact.

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