

Maintaining the social licence to operate

2018 KPMG - AICD TRUST SURVEY



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Preface

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The evidence is clear and worrying that Australia, like many other nations around the world, is facing a crisis of trust in institutions.

The 2018 Edelman Trust Barometer, a global survey on institutional trust conducted by public relations firm Edelman, registered declines in trust in Australia across all four institutional groups it covers – government, media, business and non-government organisations (NGOs). All four groups are now at five year lows in terms of trust and all four fall below the critical 50 per cent threshold – the point where they are classified as distrusted. Trust levels in government and the media are languishing in the 30s. The picture is similar globally with the 2018 Barometer showing no general recovery in levels of trust following the 2017 Barometer, which recorded the largest ever decline in trust in a single year over the 17 years the survey has been conducted.

A range of factors has contributed to the breakdown of institutional trust around the globe over the last decade. The global financial crisis shattered faith in institutions fundamental to a functioning economy. The rapid pace of technological change and automation has created anxiety among workers. Over the last two years, the ‘fake news’ phenomenon has undermined trust in media and increased partisanship. The uneven distribution of the benefits of globalisation and trade have fostered resentment and populism, even while they continue to be essential for prosperity, particularly for a relatively small country like Australia.

The questions being asked of institutions do not have easy answers.

The problems of inequality, housing affordability and wage growth stagnation are real and front of mind in the electorate and in the workforce. It is incumbent on leaders across all sectors to engage with stakeholders, listen to their concerns and have an honest conversation about the challenges and opportunities we face as a society. Three word slogans will not suffice. Policies, in some circumstances, will need to change to ensure that groups of people are not left behind. Businesses will need to adapt and step up to meet community expectations. At the same time, leaders will need to defend reform and why it is crucial if Australia is to continue to grow the pie.

Now, perhaps more than ever before, the private sector, including businesses and not-for-profits (NFPs), cannot wait for government to take the lead. The acceleration of the media cycle caused by social media, the capriciousness of party rooms in leadership struggles and the necessity of wrangling minor party votes in the Senate, all mean that we should not be waiting for government to address the problems that have led to the breakdown of trust. Business and NFPs in Australia are still in a

relatively trusted position compared to government. A deeper dive into the results of the Edelman survey shows that 65 per cent of Australians believe CEOs should take the lead on change, rather than government – evidence that business' mandate has broadened.

Former Treasury secretary, NAB Chairman and Australian Governance Summit keynote speaker Dr Ken Henry AC offered a stirring call to arms to the business community in a recent interview with the AICD's *Company Director* magazine.

"Businesspeople don't often talk openly about their vision for Australia and the things they see their businesses doing that make a positive contribution to the pursuit of that vision. They need to do so in order to build... trust. I say to businesspeople: let's just pretend government doesn't exist. How would our conversation go? There'd be no point in writing up a list of demands. Whatever our aspirations for Australia's future, why don't we try to solve some of these problems ourselves?"

It is heartening to see in the results of this survey that directors, not just from business but from all sectors, are heeding that call and are acutely aware of the need to win the trust of stakeholders. There was near unanimity among respondents that trust is important to the sustainability of their organisation and more than four fifths of directors saw open communication with stakeholders as critical. At the same time, the survey results suggest more needs to be done to build processes at many organisations so that issues that may lead to a breakdown of trust can be formally addressed.

The AICD has been at the forefront of work to foster a discussion around trust in the boardroom and at the policy level in Australia. As Graham Bradley AM FAICD, Graincorp Chairman, said in delivering the 2017 Essential Director Update, the AICD's annual summary of the latest on directors' duties and responsibilities, "The social licence to operate is absolutely essential to ongoing community support [for organisations]". Trust lies at the heart of this.

We are proud to partner with KPMG on this important report to continue the conversation about how we as directors can help to restore the community's trust.



Elizabeth Proust AO FAICD
Chairman, Australian Institute
of Company Directors



Introduction:

Trust in business

The catastrophic breakdown in trust that we are confronted with may be surprising, but it isn't new.

In the early 90s, I was an anti-corporate campaigner, standing outside the Shell headquarters in London, helping to draw the world's attention to the company's treatment of people, and in particular of local activists, in Nigeria.

At the same time, Nike was being challenged by activists around the conditions of workers producing their sneakers in Vietnam. These revelations soon reached – and impacted – many other global brands. A year later, the mining sector was confronted by significant mainstream press and other stakeholders accusing it of poor social and environmental performance which led to loss of social licence. For the miners this was serious as the community can literally shut down your operations.

Fast-forward to today, gaining and maintaining a social licence for mining and infrastructure projects remains a major challenge as more recent examples demonstrate; from the Keystone Pipeline in the US to the daily tribulations of Adani's Carmichael coal mine closer to home.

The rapidly growing number of professionals working in this social licence space and on the social performance of organisations continues

to grow. For example, there are thousands of 'social auditors' carrying out social compliance audits for leading retailers and brands as part of these companies' ethical sourcing programmes that are aiming to drive respect for human rights in global supply chains. The Australian public's growing expectations are reflected in a proposed introduction of Modern Slavery legislation that will require our largest corporations to report on their efforts to address the risks of modern slavery in their supply chains and operations.

The erosion of trust that an individual or small group of organisations catalyses can through contagion affect entire industries and 'institutions' more broadly. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry is one example where high profile breaches of trust have led to a public examination of practices across an entire industry. In recent weeks, Oxfam International's headline grabbing issues have raised questions about the development sector in general. Contemporary businesses offer jobs, goods and services never before seen in human history, yet people increasingly distrust the companies that provide

“Vulnerable stakeholders are the ones we have difficulty hearing because their voices are filtered out by layers of management that are using a business-only lens to prioritise their biggest risks”

them. This contradiction seems utterly confounding and begs the question, why?

WHAT NEEDS TO HAPPEN TO TURN THINGS AROUND? HOW DO ORGANISATIONS REGAIN PUBLIC TRUST?

In the last 12 months alone, I've had the opportunity to work with three different industries where loss or potential loss of social licence is a genuine threat. I found that boards can spend too much time asking 'how does this impact our business' when they should be asking 'how does our business impact on people?'.

For any organisation that is truly committed to protecting their trustworthiness – or for some, looking to rebuild trust they have lost – they only have to go to one place: the most vulnerable, marginalised or alternative voices (potentially) impacted by their organisation.

How do you know what the right things are to do, if you haven't thoroughly understood what the issues are that are at the root cause of problems with stakeholders. Our most marginal and disenfranchised stakeholders – those who are too easily dismissed – are often exactly the ones pointing us to the very issues we should be responding to. If ignored, these issues eventually balloon into major news headlines (as they have before) that surprise and disappoint the public and ultimately erode their trust in institutions (and lead to even more scrutiny).

Vulnerable stakeholders are the ones we have difficulty hearing because their voices are filtered out by layers of management that are using a business-only lens to prioritise their biggest risks. Vulnerable customers, in particular, are your 'canaries in the coalmine', sensitive to issues that could affect a wider group unless your business listens, understands and appropriately responds to the harm it currently causes.

My experience working with Australian boards and this directors' survey show that a change is happening in how stakeholder voices are heard and made sense of. In the past, businesses too often have "shot the messenger" when they weren't comfortable with the message, or prepared to consider the impact of their actions or operations on people.

A SOCIAL LICENCE MUST BE EARNED EVERY DAY

I see an increasing openness and willingness to have a dialogue between an organisation and its critics. Even those that were instinctively labelled as "alternative" or "radical" are now seen as stakeholders worth engaging. I have spent my career anticipating this tipping point and bringing a human rights lens into the heart of business so it can see where it is or potentially causing harm.

Developing a deep understanding of all the voices within and outside your organisation requires a willingness to listen to a broader range of stakeholders. It also calls for sensitive, expert qualitative and quantitative research that goes well beyond a 'tick-the-box' or compliance exercise.

My experience leads me to believe that it is only through meaningful consideration of the issues and impacts raised and perceived by your stakeholders that future impacts can be effectively predicted.

This results in tangible opportunities for organisations to choose a way forward that eliminates the harm it may cause. A company's full assessment of major decisions needs to involve the systematic prediction of negative impacts to be eliminated as well as the identification of opportunities to strengthen positive impacts.

“While change is happening in organisational governance in Australia the deepening level of distrust signals a more significant change is needed.”

While change is happening in organisational governance in Australia the deepening level of distrust signals a more significant change is needed. Each organisation needs to incorporate new

practices within their governance to steward stakeholder voices, especially the quiet that aren't heard or the noisy that are quickly dismissed. Processes are needed to make sense of these voices, and to cut through with decision makers so they can respond to the current and emerging issues where an organisation has the potential to cause harm – particularly to harm peoples' human rights. Our survey shows many organisations still lack these formal processes and could be vulnerable to a trust crisis.

Ultimately, social license is maintained by organisations that are responsive to changing community concerns and expectations. Society has a powerful ability to tell companies when they are no longer wanted. After listening, and understanding, organisations must act upon what is heard in a sensitive and timely manner. Most importantly, they must be publicly seen to act upon that information. A social licence is a licence that must be earned every day.

Richard Boele

National Leader, Human Rights and Social Impact Services, KPMG Australia



Methodological note

Participants in the survey were asked to answer a range of questions on issues affecting trust at their organisation. There were two types of questions in the survey: one type asked respondents to select from a range of options the most critical issues or factors affecting trust issues; the second type asked respondents to answer on a scale of '1' to '9' increasing in positivity whether certain processes or protocols were in place at their organisation. Responses of '7' and above were taken as indicating a yes answer, responses '3' and below a no. Where '6' responses may affect the interpretation of results, a parenthetical note has been made in the body of the report.

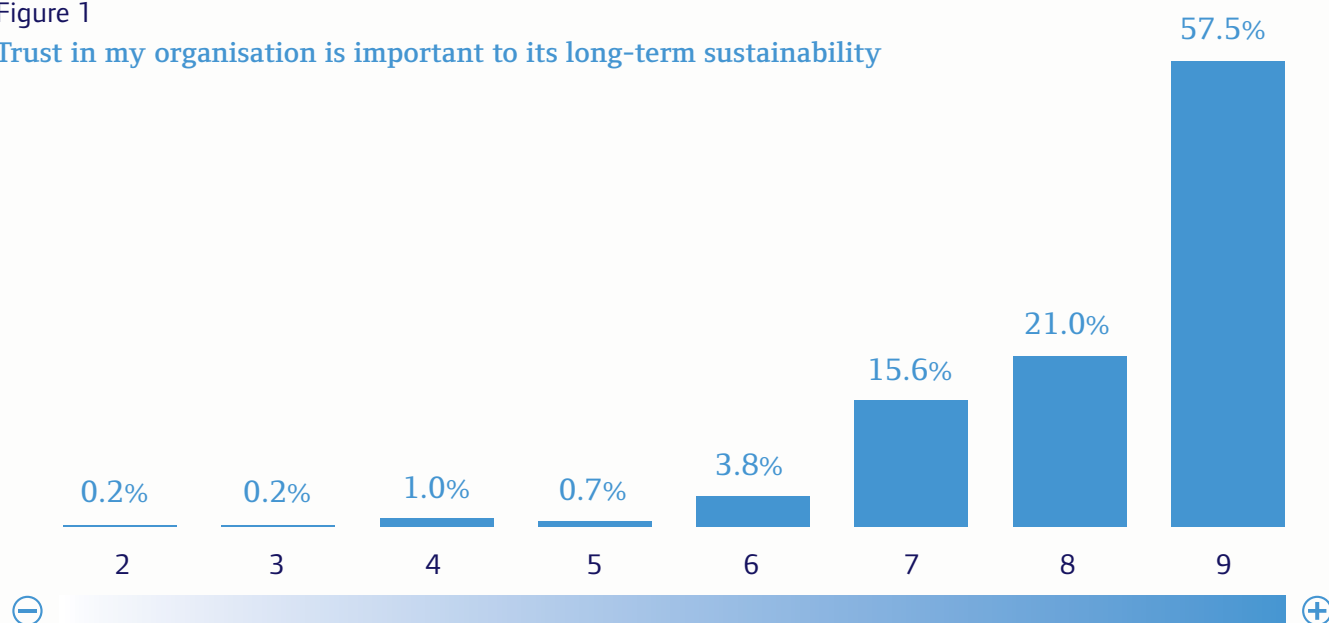
Survey report

THE STATE OF TRUST IN 2018

As the ‘crisis of trust’ in institutions continues to dominate global and national headlines, encouraging conversations are being held in Australian boardrooms where trust remains front of mind.

In our recent survey, completed by almost 600 directors, **94.1 per cent of respondents agreed or strongly agreed that trust was important to their organisations’ sustainability** (Fig. 1).

Figure 1
Trust in my organisation is important to its long-term sustainability



Almost half (45.8 per cent) of directors reported that their board had to deal with issues that can affect trust in their organisation over the past year (Fig. 2).

Respondents were involved in organisations across all sectors with 40.7 per cent coming from private business, 30.8 per cent NFPs, 14.0 per cent public sector and 11.2 per cent from listed companies (Fig. 3).

Figure 2

In the last 12 months, my board has had to deal with issues that could undermine trust in the organisation

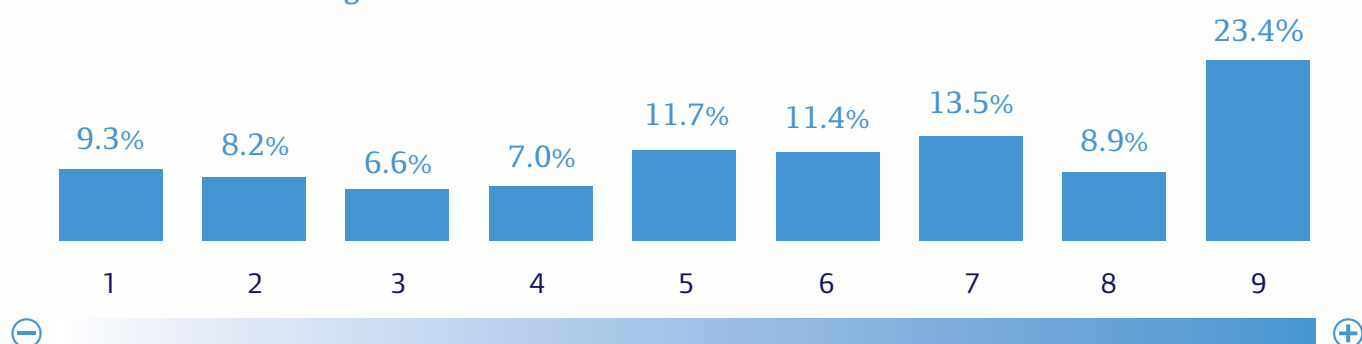
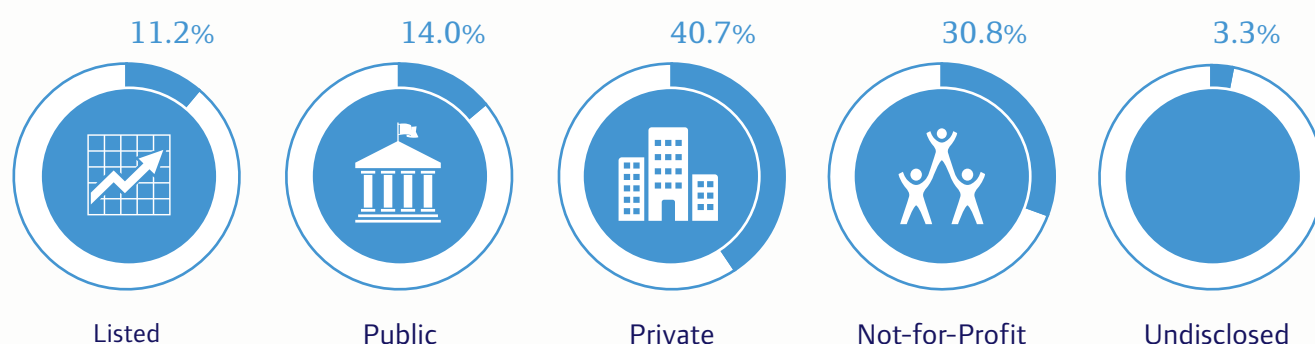


Figure 3

Respondents by sector



TRUST AND SOCIAL LICENCE

At the same time, an important shift in mindset is happening: directors are starting to ask questions about their organisation's social licence to operate.

Social licence is an important and powerful lens to frame trust. It acknowledges the active role that people and communities play in granting ongoing acceptance and approval of how companies – or entire industries – conduct their business.

Aggrieved and cynical communities can withdraw the social licence of organisations that lose or exploit their trust – with potentially devastating financial, legal and regulatory impacts.

Organisations can no longer view trust as an asset that they can buy or re-build after a crisis, but one that must be earned and maintained on an ongoing basis. Boards of all sectors are increasingly aware that fundamentally, trust is about relationships, not solely reputation.

IN PEOPLE WE TRUST

A significant loss of trust is affecting all pillars of society – including government, business, media and NGOs.¹ This reflects a growing sense that institutions are failing people. We no longer place unquestioning trust in systems and institutions. Instead, trust is now more likely to flow between local networks, individuals and peers, and has facilitated the development of the sharing economy and businesses such as Uber and Airbnb that have disrupted entire industries and business models.²

At the same time – and perhaps as a result of the growing disconnect with institutions – stakeholders across the whole value chain now demand more from the individuals who represent these institutions.

Trust in organisations is increasingly becoming about people: those who lead organisations by making decisions and those who are interested in or impacted by those decisions.

WHO MATTERS TO BOARDS NOW?

Our survey asked AICD members to identify the three most critical stakeholders whose trust their organisation needed to maintain.

Boards overwhelmingly see ‘clients or customers’ and ‘employees’ as the two most critical stakeholders to maintain trust in an organisation, as selected by 82.3 and 81.6 per cent of survey respondents respectively (Fig. 4).

Our survey findings also echo a fundamental principle of social licence – the **local or regional community in which an organisation operates was selected as the third most critical stakeholder for Australian boards** (in the top three for 35.0 per cent of respondents), followed closely by government (34.8 per cent) and shareholders (33.4 per cent) (Fig. 4). This acknowledges that the people who live and work around an organisation and its assets or operations – and therefore are most likely to be directly impacted by these operations – are key custodians of an organisation’s social licence.

Interestingly, less than half (48.4 per cent) of company directors who responded felt that **their board has a proactive approach to building trust with the organisation’s most important stakeholders** (though this rises to over two-thirds if mildly positive ‘6’ responses on the nine point scale for the question are included) (Fig.5). Only 38.3 per cent felt that they had a proactive approach to building trust with all of the organisation’s stakeholders (rising to just over half including ‘6’ responses) (Fig 6).

A majority of organisations still need to proactively improve their relationships with all stakeholders, rather than with one or two priority groups.

“Stakeholders across the whole value chain now demand more from the individuals who represent these institutions”

¹ <https://www.edelman.com/trust-barometer>

² <http://www.afr.com/brand/boss/three-reasons-why-the-trust-shift-threatens-all-institutions-rachel-botsman-20170507-gvzsc4>

Figure 4

To maintain trust in my organisation, the most critical stakeholders are:

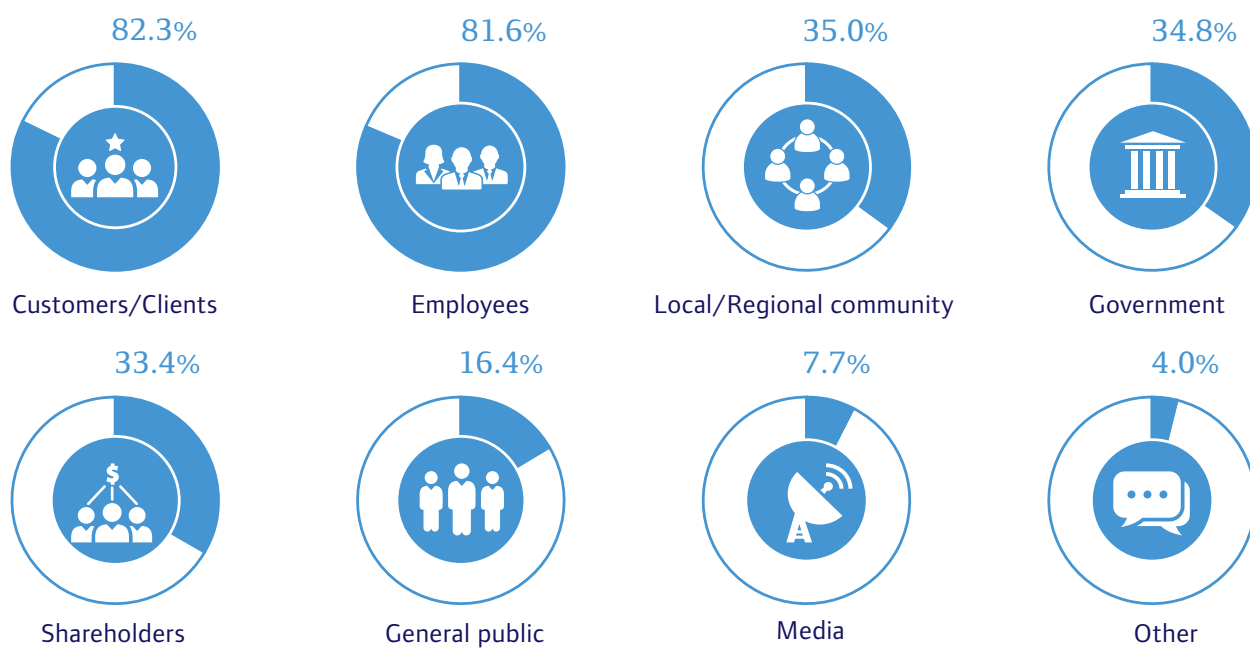


Figure 5

My board has a proactive approach to building trust in the organisation with its most important stakeholders

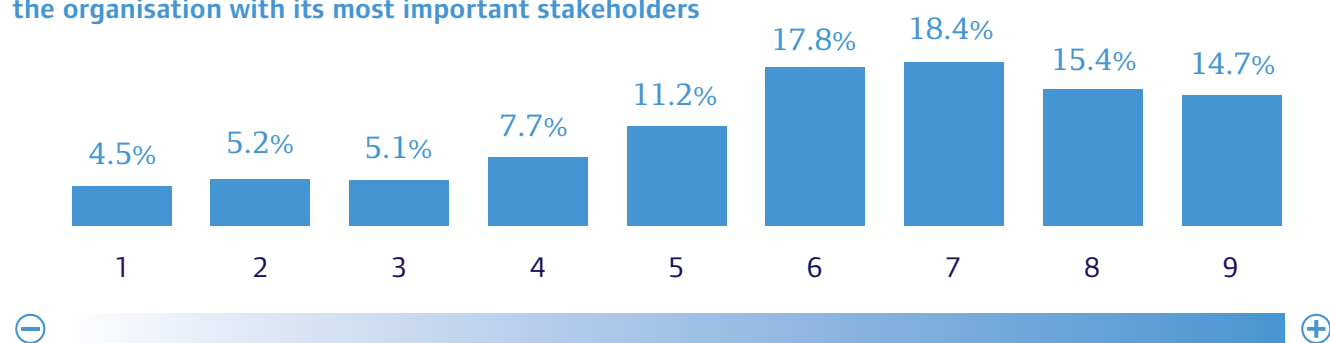
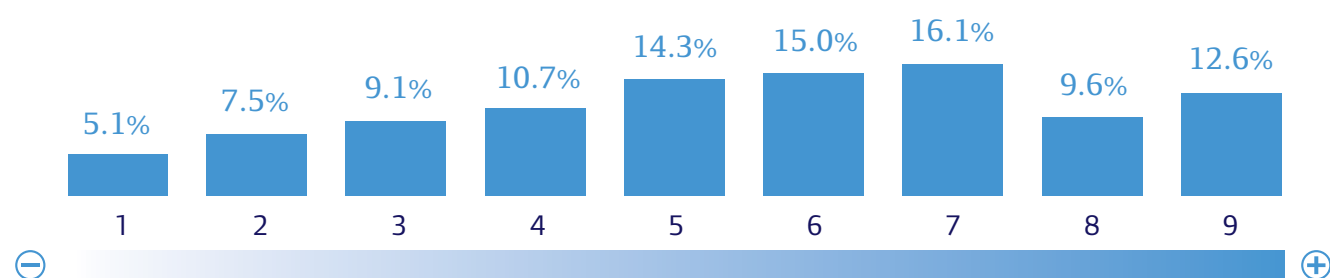


Figure 6

My board has a proactive approach to building trust in the organisation with all of its stakeholders



KEY ISSUES AFFECTING TRUST

Although company directors feel a greater sense of responsibility to the wider communities they serve, **'Internal culture and practices' was voted by directors as the most critical issue relating to trust** (74.1 per cent of respondents selected the issue as part of their top three) (Fig. 7). Poor culture can lead individuals to make decisions and interact with external stakeholders in ways that may cause stakeholders to question the credibility, reliability and integrity of their organisation as a whole. This suggests that issues that impact trust can originate from inside the organisation, as much – if not more – than from its business activities. Our findings also reflect the AICD's latest Director Sentiment Index, which found that more than 90 per cent of directors surveyed were making efforts to improve the corporate culture of their organisation. Unfortunately, many attempts from the top are in vain if employees view those attempts as inauthentic, or they are undermined by media reports of misconduct.

The second most critical issue according to respondents was 'customer satisfaction and product/service quality' (62.9 per cent) (Fig. 7). Delivering a consistent, reliable product or service undoubtedly remains critical to building trust and maintaining social licence, by demonstrating the organisation's competence. Likewise, financial responsibility and sustainability remains important and was identified as the third most critical issue (43.4 per cent) (Fig. 7).

An organisation's ability to demonstrate its social values and contribution to society was rated as the fourth issue relating to trust by directors surveyed (36.4 per cent) (Fig. 7). Organisations in all sectors – public, private and NFP – are now expected to be accountable for demonstrating their commitment and positive contribution to both their local community and society more broadly.

The ongoing interest in creating shared value and social procurement, for example, reflects this shift in the conception of social impact and the role that companies can and should play above and beyond philanthropy and traditional community investment. Organisations are finding ways to meaningfully solve social problems through their core business and are looking for opportunities to improve people's lives throughout their value chain. Institutions that are seen to have an authentic, meaningful social purpose have a much better chance at maintaining trust and social licence in the long-term. They are also more likely to be given the benefit of the doubt if and when things go wrong.

The general public now has unprecedented access to information (and misinformation) enabled by use of social media and a 24 hour news cycle. As a result, an expanding plethora of issues are escalated to boardrooms. Whether it is a noisy construction site or child labour found in the supply chain – people will learn about these issues, talk about them, share them with the world and let organisations know what they think. For example, the activist campaign against coal seam gas exploration in NSW or news developing around the Keystone Pipeline showed

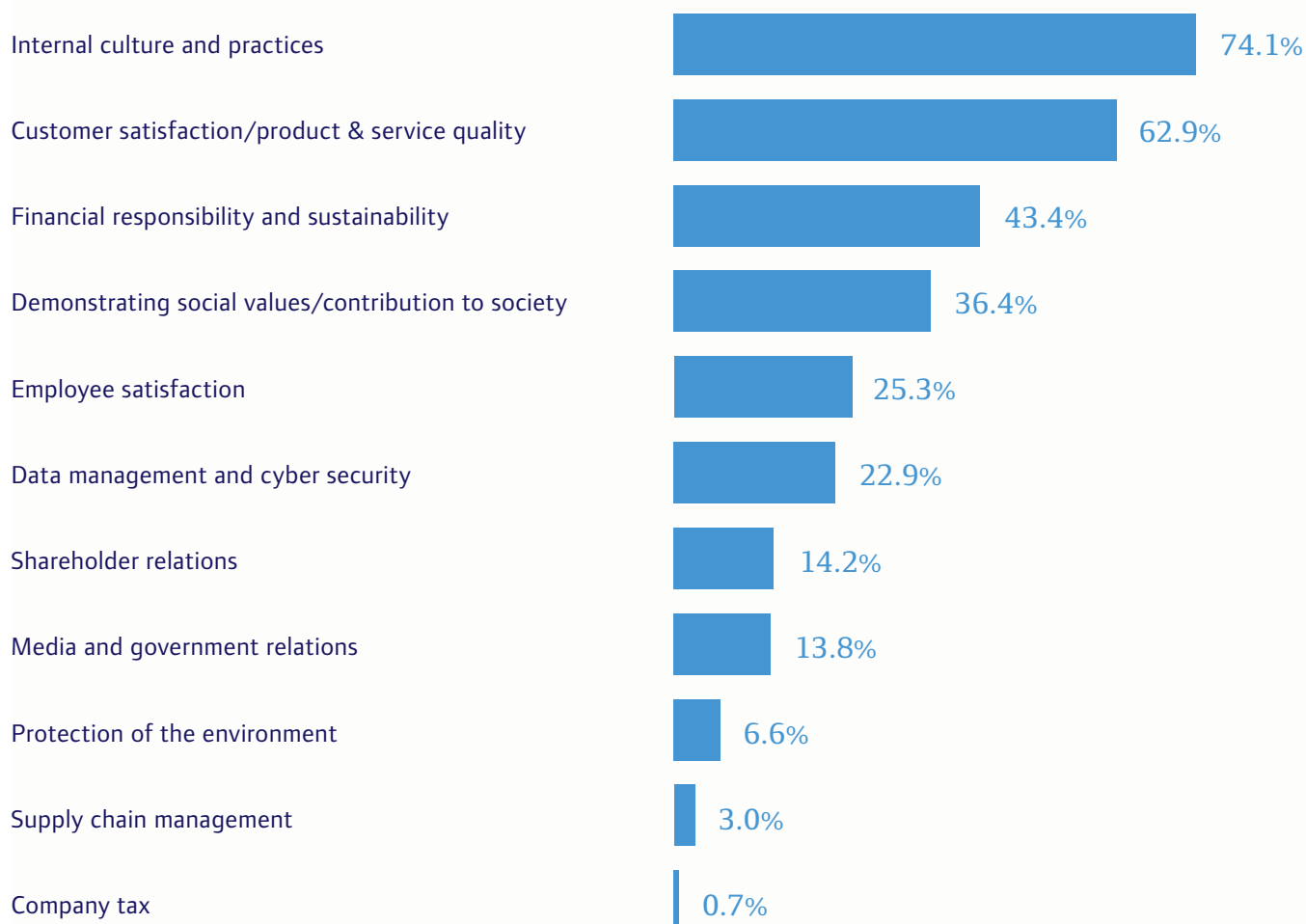
“Stakeholder groups around the world are successfully harnessing social media to amplify awareness and reach of their campaigns to drive action, and assign accountability for negative impacts.”

how much public opinion and land ownership issues can impact major projects. It demonstrated how stakeholder groups are successfully harnessing social media to amplify the awareness and reach of their campaigns to drive action, and to assign accountability for negative aspects.

Interestingly, however, only 7.7 per cent of respondents perceive that the media is a key stakeholder for maintaining trust. The 'general public' was seen as a critical stakeholder for over twice as many respondents (16.4 per cent) (Fig. 4).

Figure 7

The most critical issues relating to trust for my organisation are:



KEY FACTORS FOR BUILDING TRUST

Communicating and engaging with stakeholders openly was seen as the most critical factor for building trust (82.0 per cent) (Fig. 8).

Organisations which have forged deep and meaningful connections with stakeholders tend to know the issues that are material, and are proactive in responding to emerging threats to their social licence. Active listening processes can help boards understand or manage negative social and environmental impacts of their activities. Or better yet – design operations to avoid the negative impacts in the first place.

However, boards may only hear the loudest or most outrageous voices are those that are heard most often, simply because they have gone viral. This reflects one of the most significant challenges with designing a truly inclusive listening approach. Vulnerable, marginalised and alternative voices in the community and within other stakeholder groups must receive special attention – either because they are more likely to experience negative impacts, or their circumstances mean they are less equipped to advocate or likely to be heard.

Organisations need a multi-channel, radical engagement approach to truly hear vulnerable, marginalised and alternative voices. That approach will address systemic barriers that affect vulnerable groups' ability to raise concerns through traditional avenues. Good listening processes can help boards understand the stakeholder concerns and issues that may spread rapidly, or be experienced by a critical mass. Boards can therefore gain an 'early warning' of emerging issues that may become significant threats to social licence.

The second factor that was seen as critical to building trust by respondents was **the transparency of business practices and decision-making** (78.0 per cent) (Fig. 8). This focus on transparency ahead of responsiveness to social and environmental impacts, 17.8 per cent and 10.0 per cent respectively (Fig. 8), reflects the desire of AICD members to invest in the nature of their relationships with stakeholders as a critical step to building trust. Genuinely engaging stakeholders in the decisions that are important to them – and building deeper and more meaningful relationships through this process – is likely to have an even bigger positive impact on trust.

NEW BOARD COMPETENCIES NEEDED

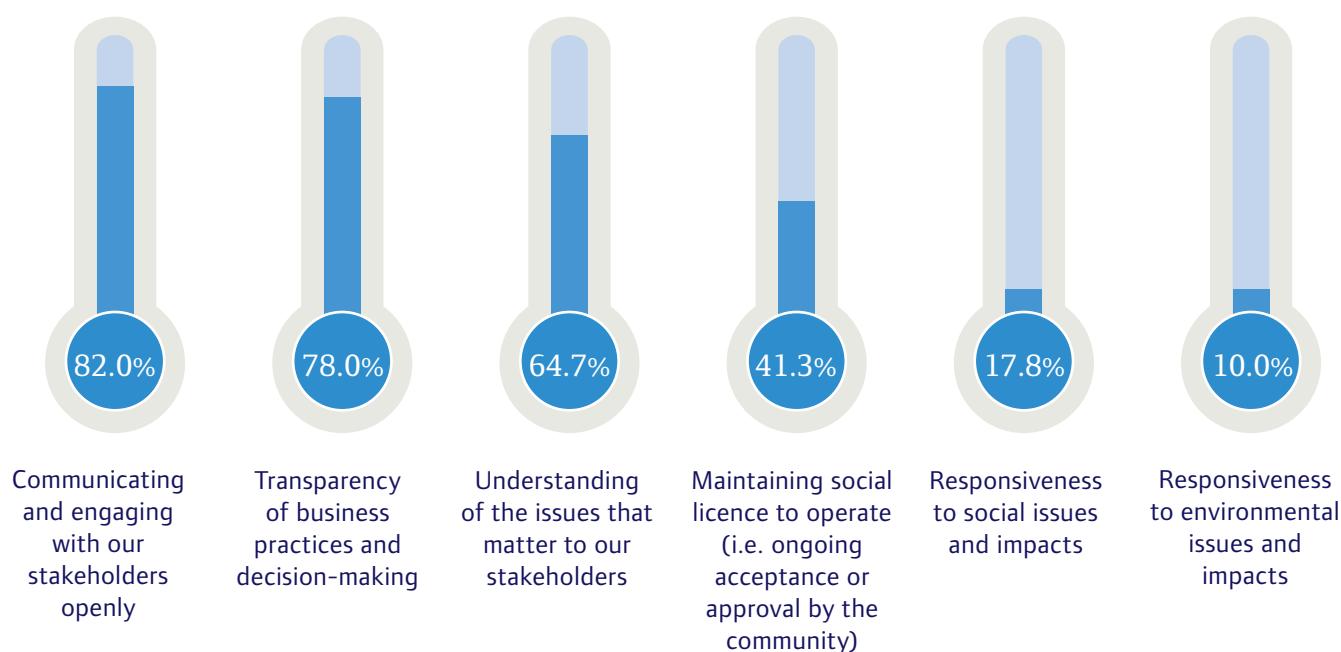
Company directors are having to engage in increasingly diverse and complex topics that can affect trust in their organisation, sometimes well beyond the traditional business agendas. Boards – as a collective – need to understand and respond to threats and opportunities caused by disruptive business models, new industries, and emerging stakeholder expectations, if their organisations are to survive the 'crisis of trust'.

“ Organisations need a multi-channel, radical engagement approach to truly hear vulnerable, marginalised and alternative voices, and to address systemic barriers that affect their ability to raise concerns through traditional avenues.”

At the same time, stricter global standards, digital disruption, policy and regulatory shifts, shareholder activism and ever-evolving corporate reporting requirements – including the greater focus on non-financial value drivers – are creating additional pressure on boards. The role that company directors are expected to play, individually and on the board, is also under increased scrutiny. Comments by our survey respondents indicate that some of the skills now needed to meaningfully listen, engage and connect with stakeholders, are evolving beyond some boards' comfort zones. Specifically, a minority of survey respondents feel that some of their peers lack the understanding and competence to address issues affecting trust, and believe that complacency and reluctance to engage can mean companies risk 'taking [stakeholders'] trust for granted'.

Figure 8

The most critical factors for building trust in my organisation are:



HOW DO BOARDS MAKE SENSE OF THE NEW LANDSCAPE?

The factors contributing to trust are more dynamic and interrelated than ever before. Understanding the issues that can affect trust, how they affect trust and how to respond in a way that can maintain or enhance trust is an ongoing challenge.

There are simply too many issues to address all of them with the same level of focus; boards must prioritise and focus on those that are most likely to impact their organisation and its stakeholders. To achieve this, boards rely on the effective escalation of data and reports from management on the issues that could undermine trust in the organisation.

The results, however, suggest a mixed picture in the extent to which organisations have formal processes for escalating trust issues to the board level. Over half (54.2 per cent) of respondents said their board regularly receives reports from management on such issues (Fig. 9).

Only 38.5 per cent believed the board had clear processes for responding to these issues, though the figure rises to over half if including weaker positive ‘6’ results on the nine point scale used for the question (Fig. 10).

Some boards may be preoccupied by crisis management and preventing the erosion of trust, when they could be playing a forward-looking role, and spending more time strengthening their organisation’s social licence.

In the survey, **23.8 per cent of respondents said their boards receive meaningful performance metrics on trust in the organisation** (rising to around a third when including weaker positive ‘6’ responses) (Fig. 11). This suggests a potential ‘blind spot’ for many boards that should be addressed in future conversations. Reputation metrics and customer surveys are an established and relatively comparable indicator, but it remains uncertain whether they truly capture the breadth and richness of issues that are most relevant to social licence and trust.

Figure 9

My board regularly receives reports from management on issues that could undermine trust in the organisation

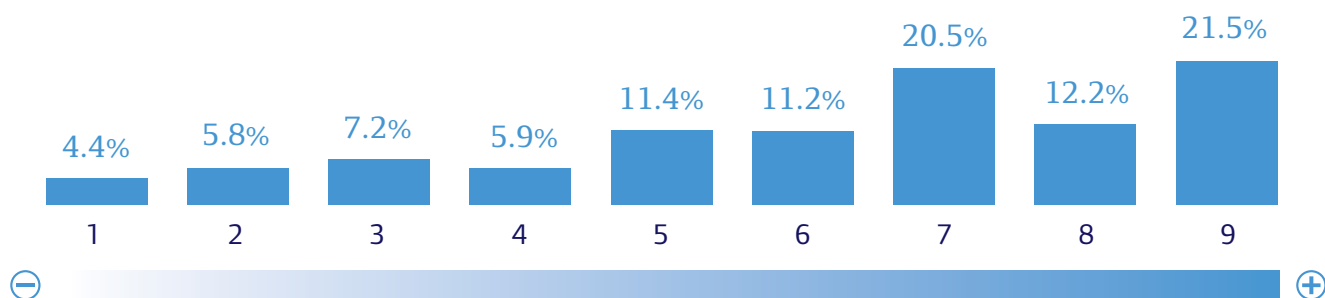


Figure 10

My board has clear processes for responding to issues that could undermine trust in the organisation

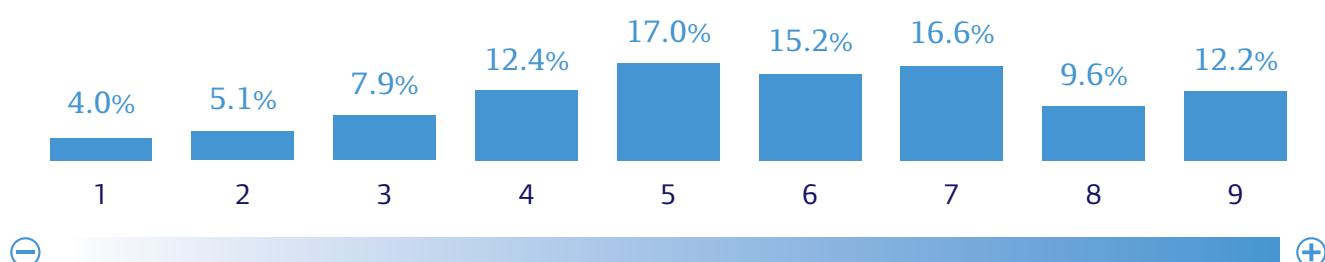
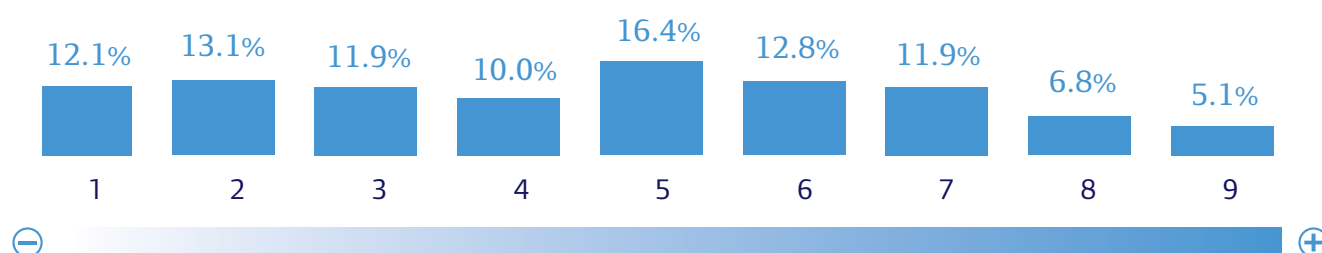


Figure 11

My board receives meaningful performance metrics on trust in the organisation



WHAT KEY QUESTIONS SHOULD YOU ASK YOUR PEERS OR MANAGEMENT TEAM?

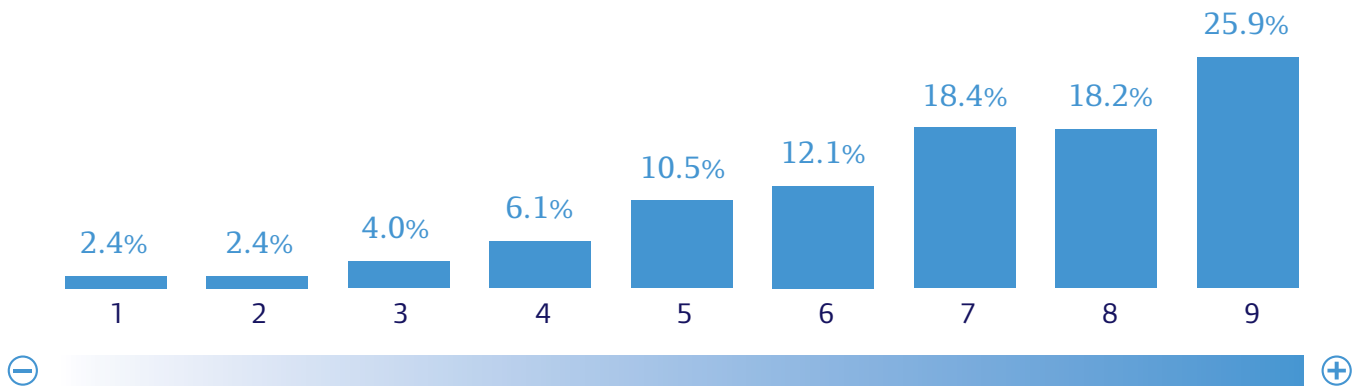
The majority (62 per cent) of directors perceived that their board can adequately challenge management on how the organisation responds to issues that can undermine trust (Fig. 12). However, it is worth noting that a significant minority did not share this confidence.

To introduce a social licence lens to conversations on trust, directors should explore the following questions with their peers and management team:

- Do we have the appropriate internal capacity, expertise – and willingness – to actively and authentically listen to all stakeholders? How do we equip our people to better listen?
- What stakeholder voices are we hearing? Who is excluded from the conversation, and how do we ensure they have the opportunity to participate?
- Do we have high quality relationships with all stakeholders? How do we implicitly or explicitly prioritise our stakeholder relationships?
- What questions do stakeholders have about the legitimacy of our business model? Can we respond to these questions in an authentic manner?
- Do we consider the actual or potential impacts of our operations on vulnerable stakeholders, before we make decisions that affect their lives?
- Do we have an authentic and meaningful social purpose? How do we bring this to life?
- What is the balance of positive and negative impacts on our stakeholders? Who bears the brunt of the negative impacts from our operations?
- Have we clearly articulated and understood what needs to change in our approach to stakeholder governance?

Figure 12

My board can adequately challenge management on how the organisation responds to issues that can undermine trust in us



ADDITIONAL FIGURES

Figure 13

My board proactively seeks to uncover potential issues that could undermine trust in the organisation

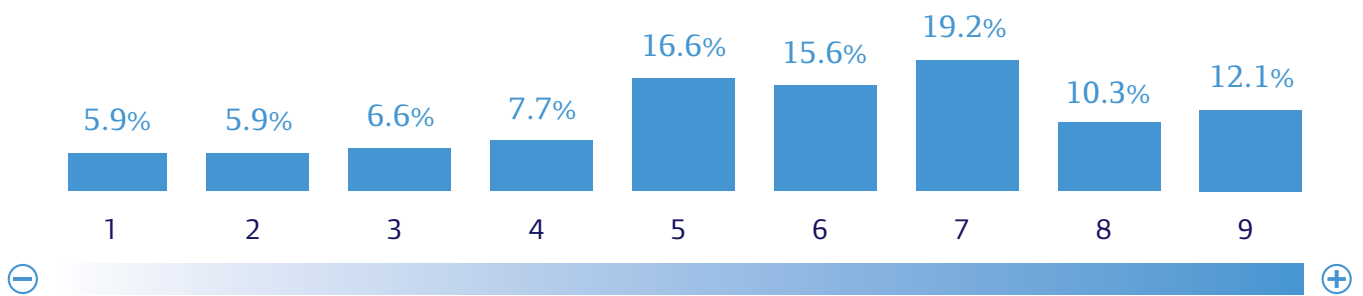
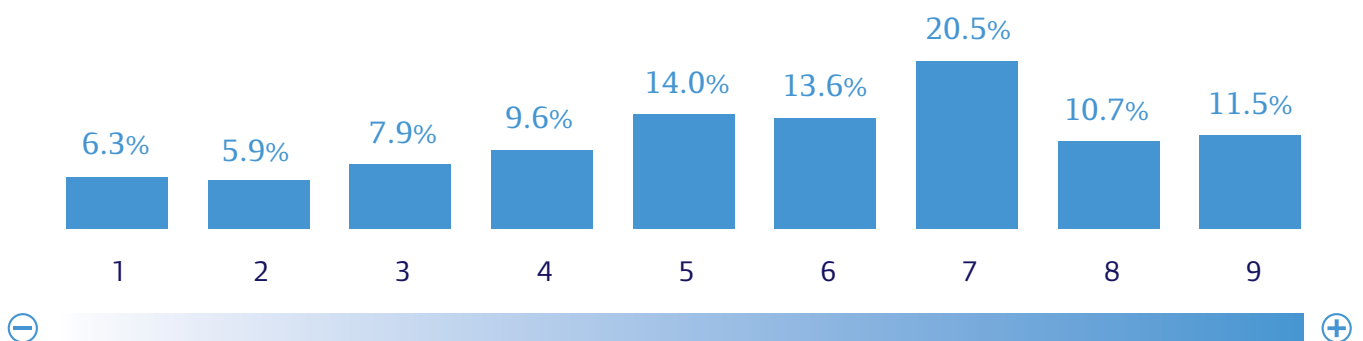


Figure 14

My board has a proactive approach to building trust in the organisation with one or two key stakeholders



Trust in not-for-profits

Public trust is the not-for-profit (NFP) sector’s most valuable asset. The sector has enjoyed historically high levels of trust which it has leveraged to make its substantial contribution to the Australian community.

However, in recent years, trust has been in decline globally, including in the NFP sector.

The Australian Charities and Not-for-profits Commission’s *Public trust and confidence in Australian Charities 2017 report* (the ACNC Report) has observed an erosion of trust over a number of years. Trust in charities has declined from 37 per cent in 2013 to 30 per cent in 2015 and down to 24 per cent in 2017. Other research on this topic has borne similar results.

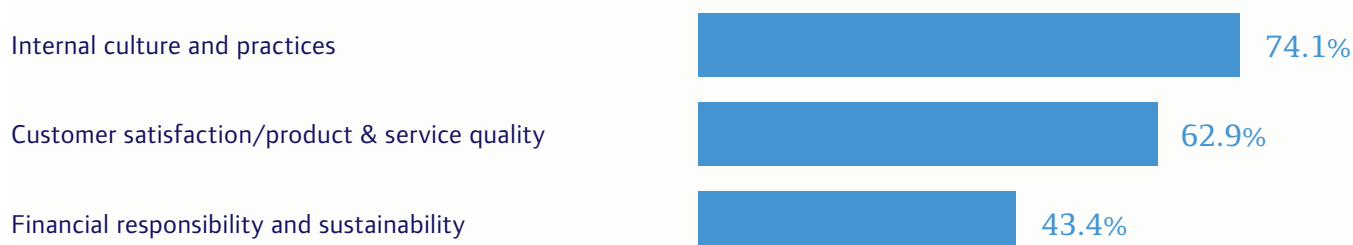
ADDRESSING DECLINING TRUST

It appears that while the significance of trust is well-established in the NFP sector, there is little evidence of directors taking an active approach to addressing trust through active governance approaches.

Our own research on trust identified culture as the most significant issue relevant to trust for NFP organisations.

Figure 15

The most critical issues relating to trust for my organisation are:



The AICD investigated culture in our 2017 *NFP Governance and Performance Study*. This study found that directors generally felt that the culture of their organisation was strong (most directors rated their culture above 8 out of 10). However, very few directors received reports on culture and a majority didn’t even have it as an item on their agenda.

Figure 16

Number of times discussed in a year

Reports on culture received (this year)



Culture formally on the agenda (this year)

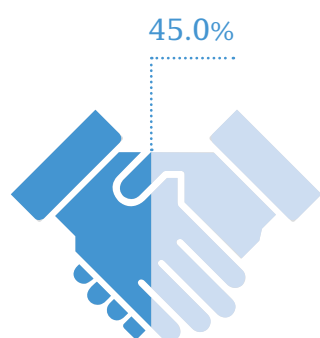


It is clear that directors appreciate the importance of culture and its relationship to trust. However, the great majority of NFP boards are not governing trust. If culture is the most critical issue relevant to trust, but it is also not on the agenda for boards, this represents a significant blind spot in the practice of directorship among NFPs.

QUESTIONS FOR DIRECTORS:

- How does our culture contribute to (or erode) trust in our organisation?
- Do we know what our culture is and how do we know this?
- What strategies are in place to maintain and, if necessary, change our culture?

Distrust in charities that paid salespeople to raise funds on their behalf



45.0%

THE DRIVERS OF DISTRUST

Trust in NFPs is driven by a number of factors and varies significantly based on demographic indicators and association with the sector. According to the ACNC Report, the key influencers of trust are an individual's belief in an organisation's mission and transparency about use of resources, particularly its fundraising activities.

Fundraising conduct is a critical issue for trust in the NFP sector. Recent media attention has focused on the proportion of funds paid to third-party for-profit fundraisers, as well as the behaviour and employment conditions of face-to-face fundraisers, sometimes called 'charity muggers' or 'chuggers'.

The ACNC Report found that 45 per cent of respondents did not trust charities that paid salespeople to raise funds on their behalf. The report also found that since 2015, fewer Australians trust charities to apply their donations to a charitable purpose and to be ethical and honest in their fundraising.

There can be no doubt that conduct in fundraising can erode trust, and indeed may have already done so.

QUESTIONS FOR DIRECTORS:

- What oversight do we have of our fundraising activities?
- How do we govern those collecting on our behalf?
- Would our stakeholders support the way we collect and use donors' funds?

Donors expect that their donation will be applied, in the main, to the purpose for which it was collected. While there might be some flexibility in how these donations are collected and used (even the leanest of organisation will have some administration costs), there is a limit, and the consequences for transgressing this expectation are extreme.

LEARNING FROM THE UNITED KINGDOM

In 2015 a fundraising scandal erupted in the United Kingdom (UK) after the tragic suicide of Olive Cooke, Britain's oldest poppy seller. Mrs Cook was reported to have felt "distressed and overwhelmed" by the 3,000 mailings she received annually from charities soliciting donations. A report by the Fundraising Standards Board found that at the time of her death, 99 charities possessed her details, 70 per cent of which had obtained these details via a third party.

The ensuing scandal was ruinous to the reputation of and public trust in the UK NFP sector.

A report released by the UK Charity Commission (*Public trust and confidence in charities 2016*) showed trust to be at its lowest since data was recorded on this topic in 2005. The most influential causes of this collapse in trust had been media reports about charities' operations (33 per cent) and how charities spend donations (32 per cent).

The reputational damage was significant enough to warrant the attention of the parliament, resulting in an inquiry into 'The 2015 charity fundraising controversy'. The inquiry singled out directors of charities as failing in their duty to effectively govern fundraising and concluded in one line: 'It would be a sad and inexcusable failure of charities to govern their own behaviour, should statutory regulation become necessary.' Despite this, the inquiry also observed that the vast majority of charities were not involved in misconduct.

Nevertheless, additional regulation followed, media scrutiny of fundraising practices in the UK persists and trust continues to decline. This should serve as a reminder to boards that government is willing and able to intercede where trust is eroded to critical levels.

LESSONS FOR NFP BOARDS

Trust is an invaluable asset that the NFP sector shares as a collective and which has experienced some damage in recent times. The hard truth for NFP directors is that while we may not be, as individuals, responsible for the damage done to trust, we are influenced by it as a collective. By extension, we are also collectively responsible for restoring this trust.

“ NFP directors must see themselves as the protectors of trust, both in their individual organisations and across the broader ecosystem.”

NFP directors identify the top three factors most critical to building trust as:

- Communicating and engaging openly with stakeholders;
- Transparency of business practices and decision-making; and
- Understanding the issues that matter to stakeholders.

Our research shows that NFP directors do not understand or respond to trust differently to directors in the private or public sector. It is clear that simply undertaking work that is beneficial to the community is not enough to build (or restore) trust .

NFP directors must see themselves as the protectors of trust, both in their individual organisations and across the broader ecosystem. They must be active in exercising their governance responsibilities to protect trust and to imbed consideration of factors that affect trust in their decision making.

The relationship between NFPs and their donors should be in sharp focus for all boards. Today's donors have access to detailed information about how an NFP uses their contribution and this increased transparency must be accounted for by boards.

Importantly, boards must be satisfied that they have appropriate governance oversight over any activities that have the ability to affect the public's trust. Trust is won and lost in the satisfaction or otherwise of stakeholders' expectations, and these should be understood and reflected in the governance of all organisations, NFP or otherwise.

QUESTIONS FOR DIRECTORS:

What are we doing to maintain trust in our organisation?

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