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Trust and accountability in UK charities: Exploring the virtuous circle

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ABSTRACT

Public trust and confidence in charities is essential for the achievement of their missions. However, recent evidence suggests that trust in UK charities has been damaged, potentially affecting charities' and the charity sector's sustainability and effectiveness. This paper constructs accountability as an important means of developing, maintaining and restoring trust in charities. Through a series of interviews with charity managers, it investigates the public and private mechanisms used in discharging accountability to, and building trust with, charities' main stakeholder groups. The paper identifies the use of a wide range of mechanisms, often highly tailored to particular stakeholders' perceived information needs, which are seen as critical in this process. It is argued that the use and interplay of these can create a 'virtuous circle' of accountability and trust, where each reinforces the other. It is argued that where this is achieved, trust in individual charities, and the sector as a whole, can be enhanced.

1. Introduction

The United Kingdom (UK) charity sector has an estimated income well in excess of £70bn, while an estimated 3.6 million people volunteer in charities in England and Wales alone each year (Charity Commission, 2016). It is a sector that, given its size and the nature of its activities, is highly visible in the public consciousness. It relies on the support of a range of stakeholders (including donors/funders, volunteers and the general public), with such stakeholders often expecting that their support will make a positive difference to specific beneficiaries (or a wider public good), and that charities will act in ways consistent with a charitable ethos (Bekkers & Wiepking, 2011; Bryce, 2016; Kearns, 2014). When expectations are not met, scandals can result and trust can be eroded. Indeed, recent events and evidence suggest that public trust and confidence in UK charities has been damaged, potentially restricting the activities of individual charities, as well as undermining the health and sustainability of the whole sector (Hind, 2017).

Accountability can play an important role in developing, maintaining and even repairing trust by allowing charities to demonstrate that stakeholder expectations are being met (Bryce, 2016; Sloan, 2009). In addition, it can reduce information asymmetries that potentially inhibit engagement, input and funding; asymmetries that can hinder the building of trust (Charity Commission, 2009; Prakash & Gugerty, 2010). In the UK charity sector, increasing public trust and confidence in charities is the first, and, arguably, the most important, objective of the Charity Commission (the regulator for England and Wales). Its efforts to promote trust through improving accountability have included significant sector consultation (Charity

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Commission, 2009) and the development and continuing refinement of a charity Statement of Recommended Practice (SORP) (Charity Commission, 2014).[1]

While much previous research in this area tends to focus on the use of public communications in discharging accountability, the contribution of this paper is distinctive in two ways: firstly, it explores the interconnected and mutually reinforcing nature of both private and public mechanisms in discharging accountability; and then examines the use of an appropriate mix of such mechanisms in building trust between charities and key stakeholders. The paper continues as follows: the next section engages with previous work on trust, accountability and the related concept of transparency to conceptualise how various mechanisms might be used in discharging accountability and developing trust with multiple stakeholders. The methodology is then detailed, before the empirical work (facilitated through semi-structured interviews, focusing on charity managers' perspectives on, and use of, such means in terms of developing trust) is presented. Conclusions are then drawn on the implications of this for accountability and trust building in the charity sector (and in the wider not-for-profit sector). The evidence of this paper suggests that public and private mechanisms of accountability, rather than being standalone processes, can actually interact, potentially creating a ‘virtuous circle’, where each reinforces the other through feedback loops, resulting in favourable outcomes in terms of both accountability and trust. It is argued that, managed well, such has the ability to build and protect the considerable and valuable social capital that the sector generates; this has important implications for both charity practice and charity regulation.

2. Trust and accountability

2.1. Trust

In the context of an expanding and cross-disciplinary literature on trust, Rousseau, Sitkin, Burt, and Carmerer (1998, p.395) define trust as ‘a psychological state comprising one's intention to accept vulnerability based on positive expectations of the intentions or behaviour of another’. Trust is not, they argue, a behaviour (e.g. co-operation) or a choice (e.g. risk taking) but an underlying state of mind that can cause or result from such behaviours and choices. Trust has been viewed as an essential component of social capital, providing the oil for interactions and associations (Heald, 2006). However, trust may change over time and may take a number of forms. Using Rousseau et al.’s analysis, trust may be *calculative*: based on rational choice and credible information on competence/intentions. Alternatively, trust may be *relational*: deriving from reliability and dependability in previous interactions, and the formation of attachments that may develop into shared identities. Moreover, *institutional* trust is derived from broad supports that sustain it at an organisational or societal level (e.g. legal systems).

Kearns (2014, p.265) argues that: ‘without public trust, nearly every other resource that a nonprofit organisation uses to advance its mission will be jeopardised’. While charitable missions focus on beneficiaries (or society at large), the resources to enable charitable activities stem from a range of other stakeholders. In particular, trust is seen as essential to the relationship between charities and their donors/funders, who give not for their own benefit, but in trust that others will gain from their donations (Bekkers & Wiepking, 2011). Moreover, charity volunteers (who contribute essential and extensive human input to a charity) may disengage when trust is undermined. In addition, trust underpins relationships with the wider public (who also may be beneficiaries, donors and/or volunteers) and it is this stakeholder group that, ultimately, is the source of tax benefits (Bryce, 2016). Even beneficiaries, perhaps the least powerful stakeholders of all, tend to disconnect where trust is lost (Kearns).

Some of the drivers of trust in charities include: ensuring that a reasonable proportion of donations make it to the end cause; being well managed; ensuring that fundraisers are honest and ethical; making independent decisions to further their cause; and making a positive difference to their cause (Populus, 2016). Conversely, if these expectations are not met, trust can be eroded (Bryce, 2016). Recent scandals, and the related media reporting, have been identified as having a direct impact on falling public trust in the UK charity sector (Populus, 2016; Hind, 2017). Recent UK examples include suggestions of: excessive salaries (e.g. in international aid charities), wasteful spending on administration (e.g. Ireland Air Ambulance), poor financial practices and beneficiary safeguarding (e.g. Kids Company) and exploiting vulnerable donors (e.g. Olive Cooke and the Royal British Legion and others) – see Connolly, Hyndman, and Liguori (2017) and Hind for details. Where expectations have been violated, Bryce argues that trust can only be rebuilt by communicating a restorative message and convincing stakeholders that corrective action has been taken.

2.2. Accountability

Accountability has a role in building and maintaining trust, and potentially a critical one. This is particularly the case in a context where it has been argued that: ‘the nonprofit sector's claims to exist for the public good are no longer being taken on faith, and more people believe they have a stake in the accountability of non-profits’ (Brody, 2002, p. 472). It has been highlighted as a *sine qua non* to the building of trust in charities: ‘accountability is necessary to promote public trust in the

[1] SORPs are UK recommendations on accounting practice for specialised industries or sectors, and they supplement other legal and regulatory requirements. Compliance with the SORP is a legal requirement for the largest UK charities, including all of those in this study.

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