



# Public Governance Guidance Note

## Crisis management: communication and transparency are key to survival

The COVID-19 pandemic has wreaked havoc for many non-governmental organisations (NGOs). As the economy takes a downturn, monetary support from donors and funders has become increasingly hard to come by. Existing donors are also being inundated with gifting requests. In these difficult times, the real issue for many NGOs is to how to convince their donors to keep gifting funds to their operations to support their projects. The problem is especially acute for non-subsided NGOs which are facing grave financial difficulties.

First and foremost, you have to be passionate about your NGO. You need to explain, as part of stakeholder engagement with potential donors, what your NGO's vision and mission are, who you are trying to help, and the actual impacts that your NGO has on the lives of the people or societies that you have worked with in delivering public good. But increasingly, donors, especially sophisticated ones, also want to know the governance practices of your NGO.

In all likelihood, a potential donor would be more willing to support an NGO that practices good governance where they have a choice to support different NGOs. Correspondingly, this means that those NGOs that are best able to engage in

stakeholder communication with their donors and show that they have good governance would be in a better position to obtain donor funding, and to survive the pandemic and grow afterwards. The stakeholder communication with donors needs to be full and frank, with transparent disclosures, which are all part of good governance practices.

In this guidance note, we will revisit the meaning of good governance and then provide some useful tips on stakeholder communication with donors as part of crisis management under the current COVID-19 pandemic.

## What is good governance?

We start by emphasising that good governance should not simply be regarded as a 'tick-the-box' exercise. Just doing enough to comply with applicable laws and regulations is in fact not enough. Rather, there should be buy-in from top management. It is only where top management sets the 'tone from the top' that there can be sufficient momentum to ensure good governance in the entire NGO and for good governance to become part of the 'culture' of the NGO. That is why, when you hear experts talking about good governance, they invariably stress the importance of the right tone from the top and adoption of good governance practices across the organisation and for this to be instilled as part of the culture of the organisation. This is what your NGO should aim to achieve.

That said, there is of course a need for compliance with applicable laws and regulations. For example, an NGO cannot give and/or receive unauthorised kickbacks in relation to getting in and/or using donor funds. That would be an ICAC criminal case. There could also be civil consequences on the giver and taker of bribes. However, simply communicating to donors that you are well governed because you comply with all applicable rules and regulations would in fact show that your NGO does not understand the nature of good corporate governance. We often hear NGOs make such a statement, but all NGOs have to comply with applicable laws and regulations so there is nothing special in stating this. This is more likely to turn away donors, especially the more sophisticated donors.

Going back to basics, in 1991, Robert Maxwell, a media and publishing tycoon, was found dead on his yacht in the UK. It was also found that £460 million – which was well over HK\$5 billion in 1991 – was missing from the pension funds of his companies. This sent shockwaves globally, and led, in the UK, to the Cadbury Report in 1992. The focus of the report was financial controls, and independent directors were required to be appointed to oversee the financial affairs of public companies. In the US, in early 2000s similarly, the MCI WorldCom and Enron scandals took place. The Sarbanes Oxley Act came about in 2002 to put into place financial (and auditing) regulations for public companies.

The term 'corporate governance' was eventually coined when controls were extended beyond financial controls to all aspects of an organisation's decision-making process. The idea was that there should be proper 'checks and balances' in the entire decision-making process and not just over financial matters. Governance has of course evolved, and we now think in terms of risks and the controls for checks and balances to mitigate risks. The major risk areas for an NGO include compliance, ethical, operational, and reputational risks<sup>1</sup> as part of its risk management.

That is, when a decision is to be made by an NGO, the decision makers should consider whether the decision complies with the applicable law and regulations – is it ethical, does it create operational issues and above all is there any negative impact to the reputation of the NGO? For example, Oxfam was trying to help the underprivileged in Haiti, but a senior staff member was found to have engaged in prostitution. This happened in 2018. Irrespective of whether it may or may not have been legal to engage in prostitution, what was done was unethical and created significant reputational risk for Oxfam. Reportedly, Oxfam is closing in 18 countries and cutting 1,500 staff amid COVID-19 pressures and contributed by the Haiti sex-abuse scandal<sup>2</sup>. This shows how the lack of proper risk management can seriously affect an NGO.

Therefore, you should look at what your NGO wants to achieve and the risks that might obstruct these goals<sup>3</sup> as part of risk management. When you communicate with donors, you can then be confident to engage in a conversation with them as to how well your NGO is managed from the risk management perspective. You would be able to emphasise that:

- your NGO is well-managed,
- you make sure that there is proper risk management in relevant areas, including addressing compliance, ethical, operational, and reputational risk areas, and
- you set the tone from the top and make sure that good governance is adopted as part of your culture through policies and procedures and staff training.

Compare this approach to the approach mentioned earlier that NGOs frequently rely upon – stating that they are well governed as they legally comply with all applicable rules and regulations. Given a choice between NGOs taking these different approaches – who would you fund as a donor?

1 An interesting discussion can be found at USAID et al. (2019) NGOs & Risk: <https://www.interaction.org/wp-content/uploads/2019/03/Risk-Global-Study.pdf>.

2 Beaumont P. (2020) *Oxfam to close in 18 countries and cut 1,500 staff amid coronavirus pressures*. The Guardian: <https://www.theguardian.com/global-development/2020/may/20/oxfam-to-close-in-18-countries-and-cut-1500-staff-amid-coronavirus-pressure>.

3 A complex example in Somalia can be found here for illustration purposes, although in general the risks are much simpler: UN Somalia *Risk Management for NGOs*. Risk Management Unit, UN Somalia: [https://www.undp.org/content/dam/unct/somalia/docs/rmu/Risk%20Management%20For%20NGOs\\_English.pdf](https://www.undp.org/content/dam/unct/somalia/docs/rmu/Risk%20Management%20For%20NGOs_English.pdf).

### Stakeholder communication

In addition to a passionate plea to your donors, supported by communicating with your donors how well your NGO is doing on overall corporate governance, including risk management, your stakeholder communication should include operational matters. As noted, you should communicate what your NGO aims to achieve, how you intend to achieve your goals, and the impacts that these will have on people and/or society. Often people are timid about being direct with donors, which can be interpreted by donors as having doubts about your ability to deliver public good. Therefore, you should not only be passionate but confident as well. Certainly, the more successful NGOs are not afraid to meet their donors and discuss their operations and funding requirements. They will also, whenever they have the opportunity to do so, whether via the NGO's website, appeal letters or events, engage in discussions with donors as part of their stakeholder engagement.

What is important, from the governance point of view, is that your stakeholder communication with your donors should also be full and frank with transparent disclosures of all relevant issues. You should think from the perspective of the donor. Ask yourself what is it that the donor would be most concerned about when considering whether or not to make a gift of funds to your NGO, assuming that they buy into your NGO's projects. To be full and frank, and transparent, we suggest that in your stakeholder engagement with donors, you should do the following.

- (1) As noted, have a passionate overview of what your NGO is seeking to do. Often NGOs assume donors know what they are focused upon, including their projects, but you should not make this assumption. Donors, like many of us, can be forgetful. Be prepared to repeat the basics, for example, who you aim to help, how you go about doing that, where your projects are located, and what are the expected outcomes/impacts. There is no harm to be repetitive in what you are doing at your NGO.
- (2) It is important to talk about track records in your stakeholder communication with donors. In this connection, you should talk about your successes, supported by data where appropriate. For example, how many people you have helped or other outcomes/impacts you have achieved for society in your delivery of public good. But don't be afraid to talk about negative issues as well. For example, if you feel you could not reach all of your target beneficiaries because of legal or other issues. By engaging your donor on both the good and the bad, and being honest, you are engaging in full and frank transparent disclosures. You will gain a lot of respect in being factual and honest as to your successes and challenges, and how you have overcome these to be where you are. It serves to show the perseverance of your NGO which would gain donors' respect.
- (3) Donors obviously want to know how their funds are being used. It is therefore useful to include something about the funds raised in the previous year and how many people you helped and other outcomes/impacts you achieved. Some, but not all donors would want to know how much of your expenses were administration related. Be prepared to have the figures and, more importantly, how these compare with your peers. Do not be afraid/defensive to disclose your financials and administration expenses levels. It is more important that these are justifiable. For any properly organised NGO, there is an administrative expense range so do try to find out how you compare to your peers.
- (4) You also need to give your donors a vision of where you are heading. If your donors buy into what you have done, they still need to know where you are going in the future and how their gifts of funds could help you to achieve this. You need, for example, to tell donors where you see where your NGO heading over the next few years, where appropriate.
- (5) Some, but not all donors will also want to know what recognition and branding they can achieve with you. Please also be prepared to communicate on this issue. We have seen too many NGOs making answers up which shows lack of thought on the topic. You may recognise your donors on your website, conference programmes and other communications, etc. You can also showcase them on any goods, services and products you deliver as part of your public good.

- (6) Also, you need to communicate with your donors your risks and how you are managing them. For example, if you are helping with a pandemic relief effort, you may be working with another NGO. Therefore, you may apply a collaboration model to reduce operational risks, etc. Your innovation in how to engage in a project with risk mitigation would be appreciated by the donor.

We have in the above set out some examples of relevant considerations for stakeholder communication. We cannot give exhaustive examples as each NGO is unique. We have hopefully helped with the thought process as to how to communicate with donors through a holistic understanding of topical governance-related issues. The current pandemic

situation is difficult, but there are still donors who are willing to support causes that they believe in. With good governance and enhanced stakeholder communication, your NGO would be in a better position to weather the storm.

Finally, in these times of crisis management you need to have a plan as to how to preserve your strength if funding dries up. You need to be full and frank with your staff and your beneficiaries as to how your NGO's operations would be affected. Don't paint a rosy picture if there is none, but try to focus on your core strengths and make stakeholder communication with donors a matter of utmost importance.

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